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MARINE INSURANCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON THE MERCHANT MARINE AND FISHERIES

HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS

FIRST SESSION

JULY 9, 16, 17, AND SEPTEMBER 25, 1919

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SUBCOMMITTEE NO. 4 ON MISCELLANEOUS AFFAIRS OF THE MERCHANT MARINE AND FISHERIES.

HOUSE OF REPRESENTATIVES.

FREDERICK R. LEHLBACH, New Jersey, *Chairman.*

GEORGE W. EDMONDS, Pennsylvania.
CARL R. CHINDBLOM, Illinois.
LADISLAS LAZARO, Louisiana.
DAVID H. KINCHELOE, Kentucky.

RENE G. DE TONNANCOUR, *Clerk.*

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MARINE INSURANCE.

SUBCOMMITTEE OF THE COMMITTEE ON THE
MERCHANT MARINE AND FISHERIES,
HOUSE OF REPRESENTATIVES,
Wednesday, July 9, 1919.

The subcommittee this day met, Hon. Frederick E. Lehlbach (chairman) presiding.

All the other members of the subcommittee were present.

Mr. LEHLBACH. This meeting is called pursuant to having referred to the Subcommittee on Miscellaneous Business a resolution adopted by the Committee on the Merchant Marine and Fisheries to investigate the question of marine insurance and to formulate legislation to provide for insurance for the merchant marine as it exists and as it will exist in the immediate future.

I think the committee, in the first place, will be glad to hear from Mr. Hurley, on the subject.

STATEMENT OF MR. EDWARD N. HURLEY, CHAIRMAN UNITED STATES SHIPPING BOARD.

Mr. HURLEY. Mr. Chairman and gentlemen, this branch of the service is most important. I am satisfied from the experience I have had in connection with the operating of the ships that legislation passed in connection with marine insurance will be the most important part of the legislation the committee as a whole will have to pass on. It is so vital to the future of our merchant marine that I am particularly pleased that there has been a subcommittee appointed to specialize on that particular branch of the legislation.

The admiralty counsel, Mr. Griffin, and Mr. Ogden, who has charge of the insurance in connection with the Shipping Board, are here, and I am working to bring everything before you in connection with the insurance. I have had a committee appointed by the marine insurance underwriters, and Mr. Rush, of Philadelphia, has submitted some thoughts in the direction of improved conditions. Mr. Ogden is familiar with every phase of the subject. We have had prepared a little memorandum that has been addressed to the chairman and the other members. I am sure that Mr. Ogden and Mr. Griffin, our admiralty counsel, will be able to answer any questions in connection with this matter, especially technical questions that I am not familiar with except in a general way.

Mr. EDMONDS. You do not handle this insurance at all, except as a business proposition with another department?

Mr. HURLEY. Yes, sir. We appropriated $10,000,000 during the war to handle our war risks. That is all covered in the memorandum.

Mr. LEHLBACH. For the payment of premiums?

Mr. HURLEY. No, sir. For the payment of losses.

Mr. EDMONDS. That appropriation went to the War Risk Insurance Bureau?

Mr. HURLEY. No; we handled our own appropriation.

Mr. OGDEN. The Shipping Board's insurance and the War Risk Insurance Bureau, seamen's section, Treasury Department, are entirely separate.

Mr. EDMONDS. You are doing virtually your own insurance?

Mr. OGDEN. Only the Shipping Board insurance, whereas the Bureau of War Risk Insurance insures for outside parties—commercial insurance.

Mr. EDMONDS. Will these gentlemen be able to furnish the committee with a full statement in regard to that—how it operates at this time, and so forth?

Mr. HURLEY. Every detail of that; yes, sir.

Mr. EDMONDS. There is one other question. Who has been insuring the foreign ships?

Mr. HURLEY. The Dutch ships, when we chartered them, we insured them.

Mr. EDMONDS. You insured them?

Mr. HURLEY. During the war.

Mr. LEHLBACH. Some bureau was allowed to take the risk on foreight ships?

Mr. OGDEN. That was the Bureau of War Risk Insurance; that is under the Treasury.

Mr. LEHLBACH. You had nothing to do with that?

Mr. OGDEN. No, sir.

Mr. LEHLBACH. You have a regular bureau formed in your department for handling this matter?

Mr. HURLEY. Yes, sir.

Mr. LEHLBACH. That statement is, I presume, contained in this memorandum?

Mr. HURLEY. Yes, sir.

Mr. LEHLBACH. You have taken certain risks, taken certain losses, and there have been certain results which you will be able to show?

Mr. HURLEY. We show $27,000,000 profit in our war-risk bureau. We show 3 per cent profit on the marine risk; that is, on the marine premiums of $21,000,000. All of those things will be explained by Mr. Ogden, who has followed them closely.

Mr. EDMONDS. I should like to ask, Mr. Hurley, if you are going to submit a proposed bill, as we must have some legislative action before very long?

Mr. HURLEY. As you go along in the next few days we will have that ready in connection with the preliminary interviews.

Mr. LAZARO. The bill?

Mr. HURLEY. Yes, sir. We have a bill now. I think that some of the members of the committee felt that Mr. Rush, who cooperated with us, had gotten a little in advance in drawing the bill, and we are getting it back so the other members of the committee will approve of it before it is submitted. We did not want a minority report; we want it to be unanimons.

Mr. EDMUNDS. Is it your idea that this proposed legislation will take the place of the marine insurance by the War Risk Bureau?

Mr. HURLEY. No, sir; we do not know anything about the War Risk Bureau. We do not pay any attention to it; only to the Shipping Board.

Mr. EDMONDS. You do not want to make any recommendations on the value of the continuance of that?

Mr. HURLEY. No, sir; we have nothing to do with that.

Mr. EDMONDS. You just want to attend to your own affairs?

Mr. HURLEY. Yes, sir.

Mr. LEHLBACH. You pay no insurance whatever at any time to the War Risk Insurance Bureau, as I understand?

Mr. OGDEN. Practically everything was placed with the division of insurance of the Shipping Board, but in special cases a few ships were insured with the War Risk Insurance Bureau of the Treasury Department.

Mr. HURLEY. Just exceptional cases.

Mr. LEHLBACH. I should like to inquire whether anybody from the War Risk Insurance Bureau is present, before we proceed.

Mr. LAZARO. Would it not be a good idea to have the representatives of the other bureaus follow these gentlemen?

Mr. LEHLBACH. Yes, sir. I think we can go ahead. The War Risk Insurance Bureau had ample notice, a week's notice, of this hearing, and the scope of the hearing, its purpose, and so forth.

Mr. EDMONDS. Mr. Hurley, you have no objection to putting this memorandum in the record as a part of your statement?

Mr. HURLEY. No, sir.

Mr. LEHLBACH. As a matter of fact, this is a memorandum by Mr. Ogden, as I understand it?

Mr. HURLEY. Yes, sir; that memorandum is to the chairman.

(The memorandum referred to by the chairman follows:)

MEMORANDUM FOR THE CHAIRMAN.

UNITED STATES SHIPPING BOARD,
EMERGENCY FLEET CORPORATION,
DIVISION OF INSURANCE,
Washington, D. C., July 7, 1919.

On September 28, 1917, the Advisory Insurance Committee of the United States Shipping Board was created by resolution of the board. The duties of this committee were to be as follows:

First. To advise the United States Shipping Board of all questions of marine, war-risk, and protection and indemnity insurance.

Second. To superintend the operation of an insurance fund to be created by the United States Shipping Board Emergency Fleet Corporation.

Third. To consider the terms of all charters, purchases or requisitions, and to make recommendations as to the insurance provisions or precautions as deemed advisable including general recommendations as to loading and inspection.

The insurance fund was created by the same resolution and was for marine and war-risk insurance. This fund was to be created with premiums and debited with losses and expenses.

The principal risks assumed by the insurance fund have been the following:

1. War and marine risks on all vessels owned by the Shipping Board and the Emergency Fleet Corporation and on vessels chartered on a barb?board basis unless assigned to the Army or Navy or rechartered.

2. War-risk insurance on all vessels under time form of requisition charter and on Norwegian, Swedish, Japanese, and other vessels of foreign registry chartered to the Shipping Board or to the Emergency Fleet Corporation on terms requiring the charters to assume the risk.

3. Marine and war risks on freight on all vessels operated by or for account of the Emergency Fleet Corporation where the freight is payable at destination.

4. Protection and indemnity insurance on all vessels which are not covered for these risks in any other way.

In January, 1918, the Shipping Board appropriated the sum of $10,000,000 to serve as a working capital for the insurance fund, but about one year later this appropriation was withdrawn as it had not been necessary to use the funds and sufficient reserve had been accumulated.

The Advisory Insurance Committee administered this fund in the same general way that marine insurance companies conduct their business. Each steamer was entered in the fund at an appropriate value and at rates in accordance with the anticipated service. At first, except for the seized German liners not in the service of the war, and the Navy Department, the committee was engaged in covering only war risks on the requisitioned American steamers of 2,500 gross tons or over. In January, 1918, the steamers constructed by the Emergency Fleet Corporation began to operate and the fund assumed both marine and war risks on them from the date of delivery by the builders. Each vessel was entered for marine insurance for one year, and for war risks at the beginning of each month or trans-Atlantic voyage at a rate of premium in accordance with her proposed service. At the end of each month, reports were submitted to the comptroller showing the premiums entered, so that he could charge the premiums against the vessels. These charges were carried as a part of the operating exepenses for each voyage.

During the war a large number of foreign vessels were chartered by the Shipping Board in addition to the requisitioned Dutch tonnage. The insurance committee entered each in the fund for the risks assumed by the Shipping Board. Practically all this protection was against war risks, as in most cases the owners provided for the marine insurance. The premiums charged were reported to the comptroller. Some of the charterers' risks, such as the vessel's liability to the cargo, were not covered by the marine and war insurance, so a separate fund, entitled "the charterers' risk fund," was started, and these steamers were entered in it. The rates charged for this protection were considerably lower than market quotations. The condition of this charterers' risk fund on June 30, 1919, was as follows:

Premiums entered		$87,601
Unearned premiums	$2,685	
Losses settled or authorized	16,919	
Known claims pending	49,034	
Unreported losses	15,000	
		83,638
Estimated margin		3,963

The marine rates used in the insurance fund were based on market quotations less about 25 or 30 per cent. This deduction was made as the fund did not have the usual heavy overhead expenses such as taxes, brokers' commissions, inspections, and clerk hire. In fixing the rates of premiums the idea was not to show a profit, but to give the Shipping Board adequate and sound protection at the lowest cost.

From November, 1917, to September, 1918, the annual marine rate for steel steamers was 3¾ per cent, with a slightly lower rate for the seized German liners. The records of the marine insurance companies covering a long period of years enabled these rates to be fixed with fair accuracy, but owing to some very heavy losses in the early summer of 1918, it was necessary to raise rates. On September 1, 1918, the annual marine rate for steel steamers was advanced to 4¼ per cent and the insured values of the steamers when less than 10 years old was increased from $175 per dead-weight to $200 per dead-weight ton. The income of the insurance fund was increased and by the end of 1918 the deficit had been made up, although the rates charged were below those quoted by marine insurance companies. As an indication of the amount of marine insurance written from July, 1917, to December 31, 1918, the following statement is given:

Premiums entered		$21,006,100
Unearned premiums	$8,436,449	
Estimated losses	11,755,155	
		20,191,604
Estimated margin		814,496

Or 3.8 per cent of the premiums entered.

The wooden and composite steamers were put in service in the summer of 1918, and on September 1 the annual marine rate was fixed at 6¼ per cent. This was found to be inadequate, and in November it was increased to 7¼ per cent. The insured value of these vessels was fixed at $150 per dead-weight ton.

On February 1, 1919, the rate for steel steamers was reduced to 3½ per cent, but the rate for wooden and composite steamers was raised to 7½ per cent. The insured values of the vessels remained the same. It might be well to note that the insured values do not necessarily correspond with the commercial values, but are based on arbitrary scales adopted merely for insurance purposes and varying with the age and type of the steamer.

To show how the insurance fund is running on the present rates, figures for March and May, 1919, are quoted:

March, 1919:		
Premiums entered		$4,617,865
Unearned premiums	$4,049,970	
Estimated losses	442,500	
		4,492,470
Estimated margin		125,395
May, 1919:		
Premiums entered		3,814,121
Unearned premiums	$3,381,067	
Estimated losses	129,500	
		3,510,567
Estimated margin		303,554

The rates used for war-risk insurance have been the same as those quoted by the Bureau of War Risk Insurance. While the figures shown below for the period from July, 1917, to December 31, 1918, indicate a large margin of safety, it must be remembered that there was a very large value continually at risk in the war zone and a concerted submarine attack on American vessels would have very quickly and seriously affected the reserve which had been built up. There was no way from past experiences to form an idea of the losses which might be expected. As a whole the vessels protected by the fund have been very fortunate in escaping submarines and mines:

Premiums entered		$40,774,718
Unearned premiums	$698,906	
Estimated losses	12,935,100	
		13,629,006
Estimated margin		27,145,712

The rates in force were as follows:

	Per cent.
July 1 to Nov. 15, 1917, United States to Europe	5
Nov. 16, 1917, to Mar. 14, 1918, United States to Europe	4
Mar. 15 to Nov. 11, 1918:	
United States to England and France	2
United States to Mediterranean ports	3
Nov. 11 to 18, 1918, United States to Europe	½
Nov. 19 to July 1, 1919, United States to Europe	⅛

Except through waters known to be heavily mined.

Since the armistice was signed the fund has sustained two total losses and one serious partial loss. On April 15, 1919, all war-risk insurance was discontinued on vessels in the Pacific Ocean and on May 1, 1919, the same action was taken on all vessels trading on the east coasts of North, Central, and South America. War-risk insurance was continued on all vessels trading trans-Atlantic. The rates have been very low since November 11, 1918, as only the risk of mines had to be covered.

The following is a statement of the war-risk premiums for March and May, 1919:

March, 1919:		
Premiums entered		$581,881
Unearned premiums	$486,534	
Estimated losses	1,494,600	
		1,981,134
Estimated deficit		1,399,253
May, 1919:		
Premiums entered		350,616
Unearned premiums	$234,705	
Estimated losses	367,500	
		602,205
Estimated deficit		251,589

In October, 1918, the Division of Insurance was created to take over all of the work of the Advisory Insurance Committee. It was also authorized to act with the approval of the admiralty counsel in making salvage and wrecking contracts and in settling claims with parties other than the Shipping Board or the Emergency Fleet Corporation, provided that the amount involved did not exceed a fixed sum.

The insurance fund has been in operation since July, 1917, and during this time it has protected the Shipping Board and Emergency Fleet Corporation in such a way that claims have been distributed over the whole fleet and no heavy loss because of a marine accident or damage from a war peril has fallen on any one vessel. The marine premiums have covered the estimated losses with a slight margin to protect against unreported accidents and losses which may exceed the estimates. The war-risk premiums have exceeded the losses to a considerable extent, but the premiums which have been paid by the vessels have been the same as were paid to the Bureau of War Risk Insurance by privately owned steamers.

B. K. Ogden,
Acting Director of Insurance.

Mr. Kincheloe. Mr. Hurley, was all the insurance of the Government-owned and Government-operated vessels carried by the Government?

Mr. Hurley. Yes, sir.

Mr. Kincheloe. That is still in vogue now?

Mr. Hurley. Yes, sir.

Mr. Kincheloe. So far as I am concerned, I should like to have your opinion as to whether you think that this same kind of insurance ought to prevail in peace times or whether there should be a change, and, if so, what change would you suggest?

Mr. Hurley. My thought, Mr. Congressman, is that it should continue until such time as we sell off the ships. For example, if we sell a ship for $1,000,000 and we take a mortgage for $750,000, and the man who purchases it pays 25 per cent down, my thought is that the 25 per cent he pays should go to a private insurance company and the other 75 per cent should be held by the Government—that is, insured by the Government at the market rate that the purchaser would have to pay and the difference between the market rate and the rate that we write the insurance for, 1 per cent or 2 per cent, should go into a fund in the interest of shipping generally and to meet conditions that may develop from time to time.

As soon as the purchaser makes an additional payment, say, $100,000 the second year, the Government stops insuring and that goes into the private insurance company. If we sold all the ships

and asked the marine-insurance companies to underwrite all the insurance, they are not large enough, but in this way they would gradually develop their insurance business so at the end of the time when the Government went out of the business of owning ships or holding the mortgages on ships they would have absorbed all the insurance and we would have private insurance companies handling the marine insurance, and the Government would be out of the ownership of the ships and also out of the insurance business.

Mr. KINCHELOE. Your idea is that if we sell all of these vessels, then, when the mortgages are liquidated the Government should go out of the business entirely?

Mr. HURLEY. Yes, sir.

Mr. KINCHELOE. Just another question. Do the foreign insurance companies as a rule write the insurance cheaper than the domestic companies?

Mr. HURLEY. It varies. We have brokers who take our insurance. If an individual ship operator wants to insure his ship, he goes to a broker, and that broker will take it to an American marine-insurance company or to a foreign insurance company, and he will sell it and place it where he can get the best rate. Sometimes the American marine insurance company will load up. They take into consideration the risk, the kind of insurance that the broker offers. If they have too much, they will allow the broker to go to a foreign marine insurance company. If they like the insurance the broker presents they will take it. Of course a large percentage of our marine insurance is underwritten by foreigners. Germany was a very heavy underwriter for years, and Great Britain is, of course, the leader.

Mr. KINCHELOE. Was there any prohibition on foreign insurance companies writing insurance on our ships during the war?

Mr. HURLEY. No, sir; but the rate was so high that we could not give it to them. They would not take it.

Mr. KINCHELOE. As a matter of fact, there was none written?

Mr. HURLEY. No, sir. We took it from them. We made $27,000,000 on our own premiums. We could not afford to give that to the insurance companies. That is the reason. During the last 18 months we have been 3 per cent under the market rate.

Mr. KINCHELOE. What has or will become of the $27,000,000?

Mr. HURLEY. We put it right back into the fund. It was just switching from one account to another. We took that out so that it would not interfere with the regular work.

Mr. EDMONDS. That is a revolving fund?

Mr. HURLEY. Yes, sir.

Mr. LEHLBACH. What was the difference in the rate charged by private insurance companies and the rate charged by the division of insurance?

Mr. HURLEY. I think all of that information is contained in the memornrum.

Mr. LEHLBACH. In this statement?

Mr. HURLEY. Yes, sir.

Mr. OGDEN. I do not think that is shown in the statement.

Mr. LEHLBACH. You are doing business at a cheaper rate?

Mr. OGDEN. Twenty-five or 30 per cent cheaper.

Mr. LEHLBACH. And at the same time you show a very large profit—about $25,000,000?

Mr. Ogden. They have heavy expenses which do not appear in the way we operate.

Mr. Lehlbach. I suppose you do not figure overhead?

Mr. Ogden. No, sir.

Mr. Hurley. We had an advantage in that way.

Mr. Ogden. Our overhead practically amount to salaries and that is very small.

Mr. Edmonds. Judge Alexander has just informed me that the British stopped their insurance companies some time during the war from insuring anything but their own ships.

Mr. Hurley. He may be right. I have not followed that in detail.

Mr. Edmonds. Is not the question of insurance one of vital importance in the building up of a foreign trade in this way: The insurer actually knows the cargo and the destination of the cargo, and that information could be given to other bodies, and it would be a natural result if he insured in a German or an English company that certain other parties would have the information as to what kind of cargoes were shipped from certain parts of the world to certain other parts of the world; in other words, they would have a knowledge of what your ships were doing, which would be useful to them in building up their trade. Do you not think that that shows that we ought, if possible, to have all of the insurance done in this country?

Mr. Hurley. You are absolutely right. If we are going into the merchant-marine business, which we are in and are going to continue, we must have all branches of the service arranged for and carried out in America, the American bureau registering of ships, insurance, loadlines, and all those things must be American.

Mr. Edmonds. That brings up another question which is, of course, connected with the insurance question. The American Bureau and Lloyds—have you had any experience that you would want to give to the committee in connection with those bureaus?

Mr. Hurley. I appointed a committee with Mr. Franklin as chairman and some of the best men in this country to make a study of that question. My experience with Lloyds and the American Bureau has been in connection with the construction of ships during the war. Of course, we forced them to double and treble their business. We built many vessels; they did not have inspectors and we forced them to get men in to inspect. In some cases the American Bureau did not have a good man and we did not get the service. The same thing applies to Lloyds. There was an extreme shortage of inspectors. We had to make the best of it. It was not a normal condition. Things did not go as we should have liked, but under the conditions we had to do the very best we could. There was a great shortage. There is great danger in not having proper inspection. The American Bureau of Shipping went into it finally. As to Lloyds, I have never had any personal experience where Lloyds had not done very fair work. I have heard a lot of rumors, but never personally had anything presented where they were doing something that they should not do. I mean on the passing of a ship.

Mr. Edmonds. The Shipping Board had nothing to do with the formation of the American Bureau?

Mr. Hurley. No.

Mr. EDMONDS. That is a separate concern supported by its fees?

Mr. HURLEY. We helped to develop and recognize them. We tried to give them from 65 to 70 per cent of all the inspections and we gave Lloyds 25 to 30 per cent, with the thought in mind of helping to develop the American merchant marine, and realizing that we could not give them all of the inspections, because it was too new and the conditions were abnormal.

Mr. EDMONDS. Are they doing good work now?

Mr. HURLEY. Yes; they are improving all the time. We are trying to eliminate the inspections. We have had too many inspections. We are trying to leave the whole thing to the American Bureau, just as you would do under peace conditions, making them responsible for the ships.

Mr. EDMONDS. The time will come when the American Bureau can handle all of this work?

Mr. HURLEY. I think so; yes, sir. One advantage that the Lloyds have, if you have an accident in a foreign country, Egypt or in India or in South America, they have an agent there to pass upon the ship and the underwriters want quick action. The American Bureau, of course, has not any foreign branch.

Mr. EDMONDS. They expect to have?

Mr. HURLEY. Yes, sir; we are encouraging that. We are anxious to have the American bureau understand that they must expand in order to keep abreast of the times.

Mr. EDMONDS. Has the Government given any assistance at all?

Mr. HURLEY. They do not need any assistance.

Mr. EDMONDS. They are financially all right?

Mr. HURLEY. Yes, sir. If they need assistance they should have it. They never sent anybody to me saying they needed money. They have some very good men. Admiral Taylor did some very good work.

Mr. EDMONDS. If they establish other agencies they would need a great deal more financial capital than they have at the present time?

Mr. HURLEY. Yes, sir. That is a very important situation, and I hope that you will be able to go into that later.

Mr. EDMONDS. We will have them before us, I suppose, and we will learn something about what they are doing.

Mr. HURLEY. Yes, sir. I realize the fact that the inspection by the agencies is a very important thing in building up shipping. I also realize that it is not a good thing to have the foreign people doing that for you.

Mr. EDMONDS. That is right.

Mr. KINCHELOE. Did the Government insure any other ships except the Government-owned and Government-operated ships?

Mr. HURLEY. We requisitioned a great many ships from private owners that we insured. We insured all the ships owned by the Government and any ship that we requisitioned and operated.

Mr. KINCHELOE. You did not write insurance on any others?

Mr. HURLEY. No, sir.

Mr. KINCHLOE. Just the Government owned and controlled?

Mr. HURLEY. Yes, sir.

Mr. CHINDBLOM. I presume, in the insurance of ships that you are selling and which you intend to have underwritten by private com-

panies, that the purpose is to confine it, if possible, to the American bureau and American insurance companies?

Mr. HURLEY. We have not followed that very closely. We have sold few ships. We have not tried to place any restrictions on them at all.

Mr. CHINDBLOM. You leave that to the purchaser?

Mr. HURLEY. Yes, sir. We take it for granted that they will insure with an American company. I have not really made that a part of the contract, there have been so few sold compared with the total number.

Mr. CHINDBLOM. There may be more hereafter?

Mr. HURLEY. Yes, sir. I recommended that to Congress and that is a part of our plan, not to have any insurance written outside.

Mr. ALEXANDER. As a matter of fact, I received a letter the other day from Prof. S. S. Huebner, of the University of Pennsylvania, with reference to this investigation, and in that connection he suggested that he was writing a brochure or some thesis for the Shipping Board on this question of marine insurance. When will that be available?

Mr. HURLEY. I expected all of those things in a month ago. We have had three or four men working on that. I will try to let you know when it will be here.

Mr. ALEXANDER. I called the chairman's attention to it because I do not think that you could have selected a better man in the United States for that purpose than Prof. Huebner. He worked with me for two years, and I think that you made a very happy selection, and I am very sure that the document or treatise, whatever it may be, will be of great value to this committee in its investigation.

Mr. HURLEY. I will call him on the long-distance telephone and let your secretary know when it will be down.

Mr. EDMONDS. You employed Prof. Huebner?

Mr. HURLEY. Yes, sir; we had him and Prof. Emory Johnson and several men who have had experience in other lines of insurance to get all of this data before us for your benefit.

Mr. EDMONDS. Will his employment be of such a nature that he can come before the committee and work with the committee?

Mr. HURLEY. I will ask him. Most of them do not like to take temporary employment.

Mr. EDMONDS. He writes me that he is willing to come down. Of course, he is looking for employment by the committee. We do not want to employ him for the same purpose.

Mr. HURLEY. Would you prefer to employ him yourself?

Mr. ALEXANDER. My point was that the information he is gathering, and for which you are paying him, would be available to this committee and that it would not be necessary for both to employ him.

Mr. HURLEY. Yes, sir; that is right.

Mr. EDMONDS. As long as he is in your employ he would be available to the committee from time to time?

Mr. HURLEY. There is no question about that. We will have him down here.

Mr. LEHLBACH. We will now hear Mr. Ogden.

STATEMENT OF MR. BRYAN K. OGDEN, ACTING DIRECTOR OF INSURANCE.

Mr. LEHLBACH. Proceed, Mr. Ogden.

Mr. OGDEN. How do you want me to start?

Mr. LEHLBACH. We want you to outline just what the Shipping Board has done.

Mr. EDMONDS. Can not we have an outline of the department as you have it?

Mr. LEHLBACH. Of the Division of Insurance?

Mr. EDMONDS. Your officers, etc.

Mr. OGDEN. And the work as we are doing it now?

Mr. LEHLBACH. The organization, the business it has done and the manner in which it has handled it.

Mr. OGDEN. As it is outlined in the memorandum you have there, the Division of Insurance was formed last October, superseding the advisory insurance committee of the Shipping Board.

Mr. LEHLBACH. Who composed the advisory committee?

Mr. OGDEN. Mr. Hendon Chubb, chairman; Mr. William N. Davey, and Mr. William R. Hedge.

Mr. LEHLBACH. Who were these gentlemen; what were their occupations?

Mr. OGDEN. Mr. Chubb is the head of Chubb & Son, New York, one of the largest commercial underwriting firms that we have. They represent not only their own company and other American companies but also a number of English companies. Mr. Davey is one of the directors of Johnson & Higgins, who are large insurance brokers and adjusters. He is an expert on losses; and Mr. William R. Hedge is the president of the Boston Insurance Co. and one or two companies that are very closely connected with that concern. His office is in Boston.

Mr. CHINDBLOM. Where is the firm of Johnson & Higgins located?

Mr. OGDEN. No. 49 Wall Street, New York, and Mr. Chubb's office is 5 South Williams Street, New York.

Mr. EDMONDS. Do those gentlemen comprise the present committee?

Mr. OGDEN. No; they have all resigned. When the Division of Insurance was formed to take the place of the committee Mr. Chubb was appointed director; Mr. Davey had resigned at that time, and there was a gentleman named Herbert S. Aggert, another insurance broker in New York, acting as assistant director of the Division of Insurance. On the 1st of February those men resigned and the board appointed me as acting director.

Mr. LEHLBACH. The first of February of this year?

Mr. OGDEN. Yes; 1919. I had been with the committee since November 12, 1917, and had done all of the clerical work and organization work; the others had merely outlined the policies which they wanted carried out, and from November, 1917, we began the insurance fund.

Mr. LEHLBACH. When was the Division of Insurance organized?

Mr. OGDEN. October 9, 1918. It was created by a resolution of the Shipping Board.

Mr. LEHLBACH. What is its present organization—the number of officers, employees, salaries, etc.?

Mr. OGDEN. You want the salaries?

Mr. LEHLBACH. Yes.

Mr. OGDEN. I am the acting director at $4,500 a year, and a man named A. W. Kanouth has charge of one particular branch of insurance; his title is chief of the P. and I. section; that stands for protection and indemnity, which covers the legal liability of the steamers, such as injury to crews and cargo claims; damage which they may do to docks, submarine cables, and matters of that kind.

Mr. LEHLBACH. In other words, injuries flowing from the ship rather than sustained by the ship?

Mr. OGDEN. Yes.

Mr. CHINDBLOM. What is his compensation?

Mr. OGDEN. $3,000. Then we have 10 clerks in the office whose salaries range from, I think it is, $2,400 to $1,100; that does not include an office girl who gets a salary of $45 a month.

Mr. LEHLBACH. Is this personnel exclusively in the Division of Insurance or are they also employed in other divisions of the Shipping Board or Fleet Corporation?

Mr. OGDEN. They are exclusively in the insurance division and they are apart from the Shipping Board.

Mr. LEHLBACH. Where is your office?

Mr. OGDEN. We are at present located at 717 Thirteenth Street, Annex 4, of the Shipping Board. Do you want an outline of the course of procedure of the division?

Mr. LEHLBACH. I think you had better go back and give us an outline of the activities of the advisory insurance committee which preceded this division.

Mr. OGDEN. From their appointment last September until November, when I came down here, I am not very familiar with what they did, but I believe their principal duties were consultations with the Law Division and other divisions of the Shipping Board in connection with the preparation of charters, principally the requisition charters under which all American vessels of 2,500 tons and over were requisitioned on the 15th of October.

Mr. LEHLBACH. Was it the policy of the Shipping Board from the very beginning to obtain control of ships and to carry their own insurance?

Mr. OGDEN. I do not quite understand the question.

Mr. LEHLBACH. The Shipping Board now carries its own insurance on all the ships that it operates?

Mr. OGDEN. Yes.

Mr. LEHLBACH. Was that the policy from its inception?

Mr. OGDEN. It was; yes.

Mr. LEHLBACH. It did have ships under its control before the war, did it not?

Mr. OGDEN. I believe not; I am not sure of that, but I think not. As you probably know, the Government can not pay insurance premiums to insurance companies. It is the policy of the Government not to place insurance with commercial companies.

Mr. LEHLBACH. And did you construe, or did the Shipping Board construe, that that inhibition precluded its paying premiums to the War Risk Insurance Bureau?

Mr. OGDEN. I believe it did. I think the theory of the committee was that without overhead expense the Shipping Board could do its own insuring very much cheaper and could also keep a certain control and restriction on the operation of ships to more advantage than commercial companies could, especially during the war, when we could not tell where ships were going, because the movement of ships was very confidential at that time.

Mr. EDMONDS. You virtually had a department that was doing its own insuring just like large manufacturing establishments have?

Mr. OGDEN. Yes.

Mr. EDMONDS. And in doing that you had to form a department to carry out that policy and to find out whether that was the economical thing for you to do?

Mr. OGDEN. Yes.

Mr. LEHLBACH. You said that in the first instance the advisory insurance committee acted rather as a consulting body. Did it commence to write insurance itself or did it handle the insurance and figure out what the premiums would be, etc.?

Mr. OGDEN. Yes; beginning in November, 1917; and those rates were based very largely on the market rates less approximately 25 or 30 per cent.

Mr. LEHLBACH. How did it handle this business—that is, was it all handled through the advisory committee of three or did it use the general organization and clerical force of the Shipping Board, or did it organize its own department?

Mr. OGDEN. It organized and built up its own office. For some time I did all the work that there was to be done; then I got an assistant and we gradually built it up.

Mr. LEHLBACH. And was that the organization which was taken over by the division of insurance in October?

Mr. OGDEN. Yes; we made no change at all in the running of the office.

Mr. LEHLBACH. So it was a continuing organization?

Mr. OGDEN. Yes; we continued the same policies as before. That was done really to give more authority to the committee, because it was found that vessels were getting into trouble and it was very necessary to act promptly. If a vessel is ashore you have to get her off as soon as possible, and it is a rather unwieldy organization to act very promptly through the Shipping Board, when we must get results quickly. So the board gave the committee authority to go ahead to make contracts and salve the vessels, thereby saving time and trouble.

Mr. LEHLBACH. Will you give us an outline or résumé of the actual workings of your division—how it carries on its work?

Mr. OGDEN. I will give it at the present time and not the way we tried to work it in the past, because it was very hard to get information in the past, so the present is a good illustration.

Mr. LEHLBACH. There has been no change in policy from the time of the advisory insurance committee to the present, and the way it works now is the result of the gradual development toward which it was aiming all the time?

Mr. OGDEN. Yes; and working with the Division of Operations, cooperating with them. We receive information from the Division of Operations as to the movement of steamers; also as to when they

are chartered to the Shipping Board and come at our risk, and we enter those in the insurance fund from that time at the rates which are in force and for the voyages which they are going to make.

Mr. LEHLBACH. Who fixes the rates?

Mr. OGDEN. Mr. Chubb fixed most of the rates while he was still here.

Mr. LEHLBACH. Do those rates remain without change at present?

Mr. OGDEN. Practically so.

Mr. EDMONDS. They have been reduced since the war, have they not?

Mr. OGDEN. Let me make this clear. There were two kinds of insurance, one a marine risk and one a war risk; the insurances have no connection and the rates have no connection; there are two different kinds and two separate rates.

Mr. EDMONDS. Since the war you have dropped the war risk and are now simply running the marine risk?

Mr. OGDEN. Yes; except as to the trans-Atlantic service; we have kept the war risk on the trans-Atlantic service but at low rates.

Mr. LEHLBACH. On account of mine fields and other obstructions?

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. Were both classes of insurance handled by your division?

Mr. OGDEN. Yes.

Mr. LEHLBACH. With the same force?

Mr. OGDEN. Yes.

Mr. LEHLBACH. How were these rates arrived at by Mr. Chubb?

Mr. OGDEN. He took the market rates. He is an underwriter of long experience. He took the market rates and reduced them from 25 to 30 per cent, depending somewhat on the vessel, and we adopted those rates and we have been using them right along.

Mr. LEHLBACH. How were the market rates ascertained?

Mr. OGDEN. Well, if we wanted those rates we would communicate with New York and get a quotation through brokers.

Mr. LEHLBACH. Did they not, to some degree, vary as competition between companies exists, or is there a tacit agreement as to rates between competing companies?

Mr. OGDEN. The market is very steady; the companies will make some difference but not very much. However, the kind of boat or the kind of steamer will make some difference and the companies' opinion of that steamer will often make a difference.

Mr. CHINDBLOM. I would like to ask whether the gentleman knows how Mr. Chubb arrived at his rates and on what basis he made this reduction? Did he make a horizontal cut in the rates?

Mr. OGDEN. He made a horizontal cut in the rates, Mr. Chubb is the leading underwriter in New York, and from his experience it follows that any rate he makes is just about the market rate.

Mr. CHINDBLOM. I have not doubt about that, but I wondered how he made his reduction.

Mr. OGDEN. He took the market rate and reduced it.

Mr. CHINDBLOM. But you do not know on what basis?

Mr. OGDEN. The reduction was on the basis of 25 or 30 per cent, not necessarily arbitrarily, but that was approximately the reduction.

Mr. EDMONDS. Your rates and the war-risk rates were about the same?

Mr. OGDEN. On the war risk they were exactly the same.

Mr. EDMONDS. Did Mr. Chubb fix both rates?

Mr. OGDEN. Mr. Chubb was one of the directors of the Bureau of War Risk Insurance.

Mr. LEHLBACH. At the same time he was on the advisory insurance committee of the Shipping Board?

Mr. OGDEN. Yes; so he worked very closely with the Bureau of War Risk Insurance.

Mr. EDMONDS. He did not get a salary from both ends, did he?

Mr. OGDEN. He got $1 a year.

Mr. LEHLBACH. The War Risk Insurance Bureau was originally created for the purpose of writing just this kind of insurance, and if Mr. Chubb was interested in both the Shipping Board and the War Risk Bureau they were cooperating.

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. That being so, why would it not have beeu economical, and the reasonable and the obvious thing to do, to place your war-risk insurance with the bureau which was organized for that purpose instead of building up an organization to handle this business?

Mr. OGDEN. I had not thought of that question, and it rather hard to answer offhand.

Mr. LEHLBACH. Was it not a duplicate of Government activities?

Mr. OGDEN. Well, in one way, yes; and not in another way. At the time we began work it would have been practically impossible for the Bureau of War Risk Insurance to write insurance for the Shipping Board, because they were tied down very strictly by the law.

Mr. LEHLBACH. Who was tied down?

Mr. OGDEN. The bureau. They could only do certain things, whereas we automatically assumed all the risks of the Shipping Board.

Mr. LEHLBACH. You mean the War Risk Bureau was supposed to abide by the statute and you could do as you pleased?

Mr. OGDEN. Well, that is a little bit broad; but we were not created by a statute; we were created by the board to take——

Mr. LEHLBACH (interposing). That is even less authority.

Mr. OGDEN (continuing). To take care of the board's insurance.

Mr. CHINDBLOM. The Shipping Board was created by statute?

Mr. OGDEN. Yes.

Mr. ALEXANDER. May I ask a question?

Mr. LEHLBACH. Yes.

Mr. ALEXANDER. I introduced the bill creating the War-Risk Insurance Bureau, and I am curious to know what limitation there was in that act which prevented their handling this insurance. They absolutely had the right to insure all vessels under the American flag against war risks, and I can not understand why they never insured all of these ships. I did not suppose you had developed a bureau in the Shipping Board to do this work when that bureau was created and equipped for that work.

Mr. LEHLBACH. I must say that it was a surprise to me to learn that this morning.

Mr. ALEXANDER. I do not see any reason for it, but there may be one.

Mr. OGDEN. There is one reason that I think I could give, and I was going to explain it. At the time we began work it was practically impossible, owing to the confusion in the Shipping Board, to get information about the movement of steamers. We often wrote insurance up six months after it attached and that was necessary.

Mr. ALEXANDER. After?

Mr. OGDEN. Yes; after. If the insurance attached in August we may not have put it on our books until the first of the year.

Mr. ALEXANDER. How would it attach—simply as a matter of bookkeeping?

Mr. OGDEN. It was simply a matter of bookkeeping. No money changed hands for premiums, whereas the Bureau of War Risk Insurance required a certified check before they would issue policies, and they required full particulars of the voyage on which the vessel was going to sail, and it was impossible to give them that in the confusion that existed at that time.

Mr. LEHLBACH. But the War Risk Insurance Bureau was not an outsider to whom such confidential information ought not to be given because they were created for the very purpose of receiving such information and then writing the policies.

Mr. OGDEN. It was not a question of confidential information, but it was a question of getting any information at all. The organization of the Shipping Board was naturally at that time very loose, because we had had a terrific amount of work thrown on us without any organization, and until an organization was built up information as to voyages being made by various steamers could not be obtained.

Mr. CHINDBLOM. As a matter of fact, was any attempt made to get the Bureau of War Risk Insurance to do business in the same way you say you are doing it? For instance, did you inquire whether they would follow the same course you were pursuing in regard to carrying a risk for half a year or more before it got on the books, in the way you stated a moment ago? Was any consultation held with the Bureau of War Risk Insurance as to whether they would conduct business in that way as a matter of emergency?

Mr. OGDEN. I never heard of any such thing.

Mr. CHINDBLOM. They you do not know whether they would have done it?

Mr. OGDEN. No.

Mr. EDMONDS. There was one great advantage, and that is that the Shipping Board in doing this themselves returned any profit in connection with it to their revolving fund, whereas if the War Risk Bureau had done it, it would have gone to their revolving fund.

Mr. LEHLBACH. I know; but that is where it belonged.

Mr. CHOLMELEY-JONES. The Bureau of War Risk Insurance covered the war hazard only and the war hazard means any other hazard but the normal marine hazard and the Shipping Board has reference to the other hazard.

Mr. LEHLBACH. No; they had the two and carried them both, the war-risk insurance as well as the marine insurance.

Mr. ALEXANDER. That is what I thought was a mistake.

Mr. LEHLBACH. When we entered the war it was the policy of the Shipping Board to control all American shipping, was it not?

Mr. OGDEN. Yes.

Mr. LEHLBACH. It did, as a matter of fact, operate and control every boat flying the American flag?

Mr. OGDEN. Yes.

Mr. LEHLBACH. And it wrote all the war-risk hazard on such boats?

Mr. OGDEN. It did.

Mr. LEHLBACH. What on earth did the War Risk Insurance Bureau do so far as its marine insurance activities were concerned, for which it was originally created?

Mr. OGDEN. Their principal business changed to insuring cargoes, and that was the very great reason for their creation, to assist a merchant in exporting his goods to Europe.

Mr. LEHLBACH. You did not write insurance on cargoes?

Mr. OGDEN. We did not write insurance on cargoes at all.

Mr. ALEXANDER. The war-risk insurance act gave the War Risk Insurance Bureau the power to insure vessels, their cargoes, and freight moneys?

Mr. OGDEN. Yes.

Mr. ALEXANDER. And they did insure vessels, their cargoes, and their freight moneys?

Mr. OGDEN. Yes.

Mr. ALEXANDER. I was quite familiar with their activities up to the time Mr. De Lanoy left the bureau, and I understood that up to that time they wrote all the marine risk—that is, war risk—on all ships under the American flag.

Mr. OGDEN. They did not write on the vessels controlled by the Shipping Board.

Mr. ALEXANDER. You just stated, in answer to the chairman of the subcommittee, that the Shipping Board controlled all the vessels under the American flag.

Mr. OGDEN. Excuse me; that was a general statement. The Shipping Board requisitioned all steamers of 2,500 tons and over.

Mr. ALEXANDER. You put the War Risk Insurance Bureau out of business, did you not?

Mr. OGDEN. Except for the smaller boats and the insurance on the cargoes.

Mr. ALEXANDER. Well, I am surprised to hear that. I supposed they were writing all the war risk on vessels under the American flag, and the last report I had was to the effect that their net profit was from $10,000,000 to $15,000,000.

Mr. CHINDBLOM. Do you know whether any opinion was procured from the Attorney General or any legal officer of the Government as to whether the Shipping Board under the law would be authorized to engage in the insurance business?

Mr. OGDEN. No; I do not. But the insurance business, as we conducted it, was entirely an internal organization—that is, the money never left the hands of the comptroller of the division of operations, and he, in fact, simply kept a ledger account of the insurance and the money remained in his hands to use as capital for running his

steamers. So the insurance fund has really been a sinking fund to take care of losses.

Mr. KINCHELOE. Had the Bureau of War Risk Insurance conducted that instead of the insurance division of the Shipping Board and there had been any profit it would have reverted to the War Risk Insurance Bureau and not to the Shipping Board?

Mr. OGDEN. It would; and, I think, that is the main question, that the money stayed with the Shipping Board and any profit remained with the comptroller. Our premiums up to the first of this year—that is, covering about 15 months—amounted to $40,000,000; if we had had to pay that out to the Bureau of War Risk Insurance it would have made a very serious difference to the comptroller.

Mr. KINCHELOE. How do you mean it would have made a difference?

Mr. OGDEN. It would have depleted his funds, the funds which he could use, by that amount.

Mr. KINCHELOE. At the same time, did it not deplete the funds of the War Risk Insurance Bureau to that extent?

Mr. OGDEN. Well, yes; but I do not think that that made any particular difference. The Bureau of War Risk Insurance was not to run at a profit and that was not the object, but it was to assist the merchants and shipowners.

Mr. KINCHELOE. But one of its main functions was to insure ships, was it not?

Mr. OGDEN. Yes; but when it was not necessary there was no reason why they should be called upon. The ships did not have to be insured by the bureau, and a great many of them were insured by private companies.

Mr. KINCHELOE. You mean the ships that were under Government control?

Mr. OGDEN. No; I mean the smaller ships.

Mr. KINCHELOE. Under 2,500 tons?

Mr. OGDEN. Yes; and before the Government requisitioned the ships. The bureau has been in existence ever since——

Mr. ALEXANDER (interposing). September 2, 1914, the law was passed.

Mr. OGDEN. They got running about December, 1914, soon after the war started.

Mr. KINCHELOE. That is, the Bureau of War Risk Insurance?

Mr. OGDEN. Yes.

Mr. KINCHELOE. And they performed all of these functions until your division took them away from them?

Mr. OGDEN. Not necessarily; they did for the owners of the steamers who desired it, but otherwise the insurance was placed in the open market.

Mr. KINCHELOE. It was not made compulsory until after war was declared?

Mr. OGDEN. It was never compulsory on them except for the insurance of crews; that was necessary.

Mr. KINCHELOE. I understood Mr. Hurley to say that your division did insure every ship under Government control during the war.

Mr. OGDEN. That is, the Division of Insurance of the Shipping Board; we did; we assumed every risk for the Shipping Board.

Mr. KINCHELOE. That was compulsory, was it not?

Mr. OGDEN. Yes; with us; but we had nothing to do with the Bureau of War Risk Insurance, Treasury Department. The only insurance that I can recall that was compulsory with them was insurance on the lives of the crews.

Mr. KINCHELOE. Was any protest made by the Bureau of War Risk Insurance when you assumed entire jurisdiction of the insuring of ships?

Mr. OGDEN. I never heard of any.

Mr. KINCHELOE. Who was the director at that time—Mr. DeLanoy?

Mr. OGDEN. Yes.

Mr. EDMONDS. You did not insure the crews?

Mr. OGDEN. No; we did not.

Mr. EDMONDS. You left that to the War Risk Insurance Bureau?

Mr. OGDEN. Yes.

Mr. EDMONDS. Did you take out a policy for every man employed, or just have a blanket policy?

Mr. OGDEN. No; our agents took out a policy for every ship.

Mr. EDMONDS. Your agents?

Mr. OGDEN. Well, the people managing the ships for us—that is, the Shipping Board—assigned vessels to certain concerns to run for them; that is, do the commercial end of the operating for them.

Mr. EDMONDS. When you chartered a ship to an agent was there a difference between chartering and allocating, or were they both the same thing?

Mr. OGDEN. No; there is a difference.

Mr. EDMONDS. When you allocated a ship to an agent or when you chartered a ship to an agent, did you require the agent to take out insurance on the men?

Mr. OGDEN. Yes. For instance, as to the Norwegian ships, the owners took care of the marine insurance and we had nothing to do with that; the board assumed a part of the war-risk insurance, and for the balance of the war-risk insurance they paid a premium as charged by the Norwegian underwriters. We could not get the ships in any other way.

Mr. EDMONDS. Ships that you chartered?

Mr. OGDEN. Yes, sir; and in most cases there was a continuance of the insurance.

Mr. EDMONDS. Including the crew?

Mr. OGDEN. There is none of that. It stopped the first of the year.

Mr. EDMONDS. The crew insurance has stopped entirely?

Mr. OGDEN. Yes, sir; but we paid the premiums for the insurance.

Mr. EDMONDS. In other words, when you charter a ship for $25,000 per month that includes all the insurance, except for the crew?

Mr. OGDEN. Yes, sir. Those statements have to be taken in a general way, because there are exceptions to all of those statements.

Mr. EDMONDS. I presume there are.

Mr. OGDEN. There are many different kinds of insurance.

Mr. LEHLBACH. When you charter a ship to outsiders to operate under your supervision you require them to take out this insurance, but you let them place that insurance wherever they please?

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. Do you know whether, in fact, they place it with the War Risk Insurance Bureau or elsewhere?

Mr. OGDEN. There were very few cases such as that. When the Shipping Board chartered a ship they retained practically all of the insurance, for which they either included the rate in the charter hire or passed the premium on to the charterer, which was the same thing.

Mr. LEHLBACH. As you charter or allocate a ship you retain control of the insurance?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. Where did you get the $10,000,000 which you set aside for insurance?

Mr. OGDEN. The board appropriated that out of their funds for the purchase and construction of ships.

Mr. EDMONDS. Where did the profits go?

Mr. OGDEN. It stayed right with the comptroller.

Mr. EDMONDS. Did it go back to the fund or was it carried as a separate account on your books?

Mr. OGDEN. It was carried as a separate account.

Mr. EDMONDS. What did you do with the profits?

Mr. OGDEN. They went back to the Shipping Board, I suppose. The Division of Insurance has no interest, except to protect the losses.

Mr. EDMONDS. Has that money been turned back to be used for building ships?

Mr. OGDEN. The $10,000,000 was withdrawn about a year after it was appropriated, as we had never touched it; had not needed to.

Mr. EDMONDS. You were carrying that on your books, I presume, as a kind of special insurance for any risk in the future?

Mr. OGDEN. Yes, sir. It was a reserve. In the meantime the comptroller used that money for the operation of steamers. It was in his hands.

Mr. EDMONDS. It was simply a bookkeeping matter?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. In regard to your policies, when you chartered a ship to a man did you not put a policy on the ship?

Mr. OGDEN. We have issued no policies at all. We simply enter the name of the ship in our books and the proper premium against it, but we have in our files a standard form of policy which covers that ship and all other ships.

Mr. EDMONDS. Will you put a copy of what you call your standard form of policy in the record?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. The reason that I asked the question the shippers are complaining very much about the American insurance companies' policies having what is known as the deviation clause?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. And they say that they can get foreign insurance without the deviation clause in it. Do you have that clause in your policies?

Mr. OGDEN. No.

Mr. EDMONDS. If I charter a ship from you and I am going to run it to Rio de Janeiro and stop it and send it to Bahia by wireless, can I do that?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. Would you charge me anything extra on the insurance?

Mr. OGDEN. No, sir. That is what we called world-wide limits; the vessel can trade anywhere, except certain ports which are frozen up during the winter, such as Archangel or the Baltic.

Mr. EDMONDS. And your policy covers that?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. You know something about the deviation clause in some of the policies?

Mr. OGDEN. I am not familiar with it by that name, but I think it refers to the navigation limits on a policy which will, for instance, permit a vessel to trade only along the United States Atlantic coast, while not permitting her to go into the gulf or to the West Indies, or she can get a wider limit which will let her go from Maine to Rio de Janeiro, but that would not allow her to go trans-Atlantic.

Mr. EDMONDS. That is customary for the American insurance companies?

Mr. OGDEN. Yes, sir; and it affects the rate.

Mr. EDMONDS. Is it customary for foreign insurance companies?

Mr. OGDEN. I think so.

Mr. EDMONDS. They do not give them the world-wide limit?

Mr. OGDEN. No; they limit the voyage that the vessel can go on.

Mr. EDMONDS. Would a foreign insurance company raise any objection if a ship sailed from London to Bombay and then went to Constantinople?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. They would want an extra charge?

Mr. OGDEN. Yes, sir. Under conditions such as that, though, the policy would be canceled. That is the interpretation of the courts.

Mr. EDMONDS. The shippers here claim that the foreign insurance companies do not do that and I want to find out about it?

Mr. OGDEN. I am not in close touch with commercial insurance at the present time, but from my experience of two or three years ago I would say that that clause was the same in the American and foreign policies. The rates may vary between the foreign and American companies.

Mr. EDMONDS. I presume there is a reason for that. Probably one harbor is more dangerous than another or getting into the harbor?

Mr. OGDEN. And the waters that you go through may not have all the navigational aids, such as light ships, bell buoys, light-houses and things like that.

Mr. EDMONDS. That is one of the things that stand against American shipping and we want to look into it and correct it somewhat.

Mr. KINCHELOE. What per cent cheaper did your bureau insure the vessels than the private American companies?

Mr. OGDEN. About 25 or 30 per cent.

Mr. KINCHELOE. And at that rate you created a profit of about $17,000,000?

Mr. OGDEN. No; you are getting marine and war risk confused.

Mr. KINCHELOE. I am asking you about what per cent cheaper?

Mr. OGDEN. I can not give you the percentage of reduction which we had on war risk premiums, because they varied very rapidly.

Mr. KINCHELOE. Do you know how much profit accrued from that?

Mr. OGDEN. In the first 15 months we have had about $800,000 profit or a little over 3½ per cent margin.

Mr. KINCHELOE. How do you figure that you can do that cheaper, because you have no overhead charges?

Mr. OGDEN. Yes, sir; we had no taxes, no brokers' commissions, which amount to 10 per cent of the premium, we had no heavy expenses for inspection, surveying of the vessels, to see that they were in good condition, and we had not a big pay roll.

Mr. KINCHELOE. Did you charge a greater rate on a ship that carried munitions of war than on a ship that carried just the ordinary tonnage?

Mr. OGDEN. No, sir.

Mr. KINCHELOE. Would not the hazard be greater?

Mr. OGDEN. Yes, sir; but we took that on our general cover; we made no difference in the cargo.

Mr. LEHLBACH. Did the private companies made a difference?

Mr. OGDEN. They very often would; yes, sir.

Mr. LEHLBACH. On account of the character of the cargo?

Mr. OGDEN. The danger of fire or explosion.

Mr. CHINDBLOM. Did you charge up the salary account of your division to the carrying charge of this insurance?

Mr. OGDEN. It is not charged up in the figures which are before you, but it is charged up on the comptroller's books. The salaries and expenses of running the office would not be over $30,000 a year at the present time.

Mr. KINCHELOE. Was that taken into consideration when you said that it was 25 per cent cheaper?

Mr. OGDEN. Yes, sir.

Mr. KINCHELOE. You figured that in?

Mr. OGDEN. Yes, sir.

Mr. CHINDBLOM. What is the total amount of insurance carried on your books now?

Mr. OGDEN. A little over $1,000,000,000.

Mr. CHINDBLOM. Pretty big business?

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. Both kinds?

Mr. OGDEN. That is the value of the vessels.

Mr. LEHLBACH. And the vessels are insured for their full value?

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. That is your liability, $1,000,000,000?

Mr. OGDEN. Yes, sir. We insure these vessels at really an arbitrary value, which is pretty close to their construction cost. It is impossible, in handling such a large fleet of about 1,000 vessels, to treat each one individually. We have to take them and apply a certain value against their dead-weight tonnage and also consider the age of the vessel.

Mr. KINCHELOE. Did you give the world-wide limit to all of these ships?

Mr. OGDEN. Yes, sir; they can go anywhere.

Mr. KINCHELOE. What did you say the amount of the insurance in force was?

Mr. OGDEN. About $1,000,000,000.

Mr. KINCHELOE. Are you still writing insurance?

Mr. OGDEN. Yes, sir. Steamers are coming out at the rate of about 120 a month, and, of course, we place the insurance as soon as they come out. I do not know how long that will continue. While it does we will write the insurance.

Mr. EDMONDS. You built a composite vessel at Jacksonville—steel and wood. It left Jacksonville, was four days at sea, and arrived in New York, and was found unseaworthy and afterwards sold. Do you consider that as a marine loss and take it in as a loss?

Mr. OGDEN. I do not want to take those in as losses. I have not had to decide one of those cases yet, but I am objecting very seriously to unseaworthy vessels.

Mr. EDMONDS. This ship was the steamer *Kanabec*, one of the composite vessels. She was four days at sea and was sold at a loss of $500,000 in round figures. Of course, when she went to sea you insured her?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. And when she arrived as unseaworthy she was sold at a loss?

Mr. OGDEN. Yes, sir; I believe so.

Mr. EDMONDS. Would that be an insurance charge?

Mr. OGDEN. I should say not. If the Division of Operations can show us that she was seaworthy at the time she sailed, we will have to pay for the cost of repairing the damage sustained during the voyage, but I think that is all. We would not pay for her ordinary depreciation.

Mr. EDMONDS. You have confined your operations entirely to the payment of losses occasioned by the action of the sea?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. Or necessary damage such as would naturally occur in the mercantile business?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. You have not accepted any loss occasioned by poor construction?

Mr. OGDEN. No, sir.

Mr. LEHLBACH. Was the *Kanabec* sold for cash or on time?

Mr. EDMONDS. For cash.

Mr. LEHLBACH. If she had been sold for so much cash and the balance under a mortgage, under the practice of your board would you have carried insurance for the mortgage interest?

Mr. OGDEN. Yes, sir; we would have, provided the owners had not been able to obtain the insurance in the open market.

Mr. LEHLBACH. At the same rate that you would charge?

Mr. OGDEN. No; they would have to get it at a reasonable rate, which at the present time is 10 per cent on a wooden ship whereas our rate on a wooden steamer is 7½ per cent. The steamer *Kanabec* I happen to know a little about. I did not know that she had been sold. She came up to New York and had quite a serious collision in New York Harbor, which may have had something to do with the cause of her sale.

Mr. LEHLBACH. The Division of Operations, so far as its relation with your Division of Insurance is concerned, is practically the owner and you are the underwriter?

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. And in practice you have no discretion or option as to what you will write; you have to write what they present at the figures presented?

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. And at the valuation and at the rate of seaworthiness that they present?

Mr. OGDEN. The question of seaworthiness really has to be admitted as far as we are concerned. We have no choice. We do not inspect the vessels; I do not think our inspector would be able to stop a vessel from sailing if the agents wanted to send her.

Mr. EDMONDS. Did you take a loss on the *Kanabec?*

Mr. OGDEN. The documents have not come in yet, but I expect in all likelihood to ge the repair bills and have to approve them to be charged against the insurance fund.

Mr. EDMONDS. It is a pity you have to have a ship like the *Redbank* which is pretty nearly as bad?

Mr. OGDEN. The ship which the *Kanabec* took the cargo from was worse.

Mr. CHINDBLOM. You are pretty nearly insuring against unseaworthiness?

Mr. OGDEN. Yes, sir; pretty nearly.

Mr. ALEXANDER. Your whole business amounts to this: You have taken these rates of insurance which were fixed by Mr. Chubb formerly and you have charged each of these vessels with the premiums based on those rates and against them you have charged off the loss and damage by reason of collisions, injuries at sea, and marine reasons?

Mr. OGDEN. Yes, sir.

Mr. ALEXANDER. In determining what your losses were. In other words, if you had not this bureau at all the result would be the same; in other words, if there was any loss it would come out of the Treasury of the United States?

Mr. OGDEN. Yes, sir.

Mr. ALEXANDER. And these profits that you speak of are purely book profits in the way of insurance?

Mr. OGDEN. Yes, sir. There is a point there that comes up. In handling any steamer the insurance is a very large item of her expense, and there could be no record kept of the earnings of a vessel if we did not charge the insurance against it.

Mr. ALEXANDER. I see the wisdom of that.

Mr. OGDEN. And that also spreads the loss out over the fleet instead of saddling one vessel with a heavy loss at any one time.

Mr. ALEXANDER. I do not know whether it is true, but it is my information that the Government of the United States does not carry any insurance on any of its property. On its buildings like the Capitol and the Congressional Library there is no fire risk carried, because the Government has so much property and it is so widely scattered that it estimates it can carry its own insurance cheaper than it can insure in any company.

Mr. OGDEN. The Government risk is so widely scattered that any profit might just as well stay with the Government.

Mr. ALEXANDER. The Government can carry the risk cheaper undoubtedly in the first instance than any private insurance company?

Mr. OGDEN. Yes, sir.

Mr. ALEXANDER. You have demonstrated that fact by your book profits?

Mr. OGDEN. Yes, sir.

Mr. KINCHELOE. How does your bureau adjust losses? For instance, a ship is out at sea and is injured in docking, who adjusts that loss?

Mr. OGDEN. The vessel comes in and the necessary repairs are made. Then we check those repairs very carefully with the damage sustained and if the damage is covered by our insurance we simply pay the repair bill or reimburse the comptroller for having paid the repair bill.

Mr. KINCHELOE. Even if you ascertain beyond a doubt that it was due to the negligence of the crew?

Mr. OGDEN. The insurance covers negligence, provided that the vessel was properly manned and equipped when she sailed.

Mr. KINCHELOE. And if the ship is a total loss you pay the face of the policy?

Mr. OGDEN. Yes, sir.

Mr. KINCHELOE. Who fixes the amount that a ship is to be insured for? Suppose I have a ship that I would say was worth $500,000 and I came to you and wanted that much insurance when, as a matter of fact, it would not be worth $250,000, who settles that?

Mr. OGDEN. That point in connection with the requisitioned ships which were privately owned was decided in this way: The Government agreed to pay "just compensation" for the loss of a ship. They would not specify an amount, but after a ship was lost a committee of four or five men in New York went over the ground and appraised that ship.

Mr. KINCHELOE. Representing your bureau?

Mr. OGDEN. Representing the Shipping Board. The owners had the privilege of appearing before the committee. The committee has valued at least a dozen ships that I know of and the money has been paid and I have not heard of any very strenuous kick.

Mr. KINCHELOE. How would that committee know how to fix the loss if they never saw the ship?

Mr. OGDEN. There are very complete records of all of these ships. They are of a certain class and you can get the figures as to how much it cost to build them; you can apply a certain depreciation for age; you can consider the capacity, the amount of cargo she can carry, and the freight she can earn and, considering all of those matters, the experts can come to a conclusion.

Mr. KINCHELOE. In other words, you arrive at it a general way in a specific case?

Mr. OGDEN. They take each case separately.

Mr. KINCHELOE. But the way you arrive at that is in a general way?

Mr. OGDEN. Yes, sir.

Mr. CHINDBLOM. The owners are in no way bound to accept the findings of that committee?

Mr. OGDEN. No; they have the privilege of accepting a certain percentage and then filing a claim with the Court of Claims.

Mr. CHINDBLOM. Was there any danger that the committee would have to be quite liberal under those circumstances where the owners would not be bound to accept the findings?

Mr. OGDEN. I think in a way that worked the other way. The owners would much rather have a smaller amount of money in their hands than go to the Court of Claims and wait for it.

Mr. EDMONDS. On page 7 of this memorandum I notice that in March, 1919, you lost $1,399,000, and in May, 1919, you lost $251,000. How did that come about?

Mr. OGDEN. Because the losses were very heavy.

Mr. EDMONDS. There was no war risk.

Mr. OGDEN. Those are marine losses.

Mr. EDMONDS. The estimated losses in March were $1,494,600?

Mr. OGDEN. That was a war loss, a vessel having struck a mine.

Mr. EDMONDS. During the month of March?

Mr. OGDEN. Yes, sir. That was the total loss of one of the Dutch steamers.

Mr. EDMONDS. In May, 1919, the estimated losses were $367,500 and the unearned premiums $234,705 or a loss of $251,000. You had $350,616 paid in premiums and a loss of $367,500, or a little over?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. How did that come about?

Mr. OGDEN. There was the total loss of another steamer. The first figures show the full amount of the premiums which we have entered during the month. The unearned premiums are arrived at in this way: If the original risk continued three months, that is, if it would take three months for the vessel to complete the voyage, at the end of the first month we consider the premium one-third earned. In other words, if for any reason we had to cancel that policy we would have to return two-thirds of the premium and pay any loss which occurred during that time. At the end of the month we do not consider that we have earned all the premium which has been entered, only one-third.

Mr. KINCHELOE. You would not pay back any premium in the case of a total loss?

Mr. OGDEN. No, sir.

Mr. EDMONDS. You carry that as a war-risk premium?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. You made money in the month of March, taking the whole business together and still you carried it at a low rate?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. Maybe the rate was too low?

Mr. OGDEN. Not if we take the six months together. I only happened to pick out the two months in which we had the only total losses.

Mr. EDMONDS. You wanted to show us how you were getting along?

Mr. OGDEN. I did not pick those out with any particular intention; I just happened to pick them out.

Mr. CHINDBLOM. Is the rate annual?

Mr. OGDEN. The marine rate is annual and the war-risk rate is for the voyage.

Mr. EDMONDS. And when a ship is sold the insurance is canceled?

Mr. OGDEN. Yes, sir.

Mr. CHINDBLOM. What do you estimate the total premiums on the $1,000,000,000 value of vessels now covered?

Mr. OGDEN. Three and one-half per cent. One-twelfth of that is earned each month.

Mr. CHINDBLOM. That is an annual premium of 3½ per cent?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. That is on the regular marine insurance?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. And the war risk is extra?

Mr. OGDEN. Yes, sir. If vessels go to such a port as Archangel where there are few aids to navigation, we charge an extra marine premium.

Mr. EDMONDS. That would be the regular way with every insurance company?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. Do you carry war risk on the vessels going into the danger zones?

Mr. OGDEN. To France, England, Denmark, Scandinavia, and also to the Mediterranean.

Mr. EDMONDS. And to South America?

Mr. OGDEN. Yes, sir; and in the Pacific.

Mr. LEHLBACH. In the total loss that the Shipping Board through this committee and later through the Division of Insurance sustained, about what is the total number of vessels embraced in that list?

Mr. OGDEN. The number of vessels has varied a great deal. When we requisitioned steamers, I think we took over about 600.

Mr. LEHLBACH. What is the number of vessels upon which you have paid losses?

Mr. OGDEN. It is awfully hard to get any figures on that, because some vessels have suffered two or three losses and others run along with no trouble.

Mr. EDMONDS. Do you carry a complete list of the losses?

Mr. OGDEN. Yes, sir.

Mr. LEHLBACH. That list is easily ascertainable by referring to your books?

Mr. OGDEN. Yes, sir. I have a pretty comprehensive list here of the losses.

Mr. EDMONDS. With the reasons?

Mr. OGDEN. No; just the date of the accident.

Mr. EDMONDS. Can you furnish us with a list of your losses that you have paid or which you estimate you will have to pay up to date, with a little note as to the collisions, and also whether sunk by torpedo or submarine?

Mr. OGDEN. Yes, sir. I can also give you a list showing the collisions.

Mr. EDMONDS. And the name of the vessel?

Mr. OGDEN. If you want that I can do it.

Mr. EDMONDS. There is no objection to that?

Mr. OGDEN. None at all.

Mr. CHINDBLOM. Please put under separate headings losses by collisions so much and losses by mines so much.

Mr. EDMONDS. And please give us the date and where it occurred, if a collision, and whether sunk by submarine or torpedo, and in what waters.

Mr. KINCHELOE. And please give the name of the vessel.

Mr. LEHLBACH. One is marine loss and the other war-risk loss?
Mr. OGDEN. Yes, sir.
Mr. LEHLBACH. Do you keep them separate?
Mr. OGDEN. Yes, sir.
Mr. LEHLBACH. Please furnish that information to the committee.
Mr. OGDEN. Yes, sir.
Mr. KINCHELOE. Of course, you have sold a large number of ships since the war ended?
Mr. OGDEN. Yes, sir.
Mr. KINCHELOE. Do you convert the insurance to the private marine insurance companies as you sell them?
Mr. OGDEN. The owner of the vessel is encouraged to place as much of the insurance as possible with private companies.
Mr. KINCHELOE. Suppose I should buy one to-day for $1,000,000 and I really wanted to continue to get the benefit of the low rate of the Government insurance, would you permit me to do that?
Mr. OGDEN. In case it was impossible for you to insure at a reasonable rate outside.
Mr. KINCHELOE. It is not impossible to do that now, is it?
Mr. OGDEN. It depends somewhat on the vessel. Wooden vessels are very hard to insure.
Mr. KINCHELOE. The private companies do not solicit that business?
Mr. OGDEN. No, sir.
Mr. KINCHELOE. If I bought a wooden vessel and I could not get insurance in the private companies, then would you continue to insure it?
Mr. OGDEN. We would only continue to insure the Government interest.
Mr. KINCHELOE. Suppose that I paid cash? Would your bureau decline to write me Government insurance?
Mr. OGDEN. Yes, sir.
Mr. KINCHELOE. In other words, the only insurance that you will give now for the vessel purchased is where the purchaser owes the Government or your bureau?
Mr. OGDEN. Yes, sir; we have no authority to do a commercial insurance business.
Mr. KINCHELOE. As I recollect that loss on the ships will finally come out of the business of the individual ships?
Mr. OGDEN. Yes, sir.
Mr. KINCHELOE. And that is the policy, as I understand Mr. Hurley, of your bureau now?
Mr. OGDEN. Yes, sir; and also the policy of the Law Division.
Mr. LEHLBACH. We are much obliged to you, Mr. Ogden, and for the present we will not ask you to return.

STATEMENT OF MR. JOHN W. GRIFFIN, ASSISTANT ADMIRALTY COUNSEL.

Mr. EDMONDS. What is your position?
Mr. GRIFFIN. I am assistant admiralty counsel for the board and have been so employed for about one year—not quite a year. The point that I chiefly want to emphasize is one which I think Mr. Ogden has already made clear, namely, that it appears to me to be

misleading to employ insurance phraseology in speaking of this situation, which is really a bookkeeping situation. In other words, the President was empowered by Congress, in the emergency shipping act, to requisition certain vessels, to construct certain vessels, and then to operate the vessels so secured. He was further given authority to delegate that power, and he did delegate it to the Shipping Board. The Shipping Board was therefore in the position of a shipowner with a fleet to operate and had, I take it, to consider whether it should carry its own insurance risks, as many large commercial companies do, or whether it should secure outside insurance.

The decision was to carry its own risks, but it is really a bookkeeping matter, and it created a separate insurance division to carry the risks which an underwriter would ordinarily carry. But the fact that it has not considered that as an insurance business is emphasized by the fact that there have been certain isolated situations in which it would have been advantageous for the board to place insurance, for instance, on cargoes. There have been some cases where wooden ships, for instance, could have been handled to better advantage, in view of the high cargo insurance rates on those vessels, if the board as charterer could have said "We will carry the cargo risk." The board, however, has uniformly refused to do that, for the reason that it is not empowered to conduct a commercial insurance business. It has not gone into the insurance business, as I look at it, but it has merely been carrying its own risks and establishing machinery in the Division of Insurance for the purpose of placing its transactions on a basis where they could be compared with those of an ordinarily operated steamship company.

I might also call attention to this difficulty, which is more or less inherent in any scheme of Government marine insurance and which possibly might be of importance in considering legislation. Marine insurance is peculiar in that accidents happen all over the world, and, further, that those accidents usually require the most prompt action. Cargoes are perishable and the ships are valuable. The private underwriters have their representatives all over the world, and I think one difficulty that Mr. Ogden has sometimes had in handling these situations is the lack of a corresponding world-wide Government organization. Is that correct, Mr. Ogden?

Mr. OGDEN. It is.

Mr. GRIFFIN. Whether any plan can be devised by which that objection can be met for any future business that may be done under Government auspices is a matter for consideration.

I might also speak of the project which has been under discussion to secure in the general interest of water-borne commerce a standardization both of bills of lading and of insurance policies, so that the risks from which the carrier is exempt by the bill of lading will be accurately covered by the insurance, with no overlapping and no underlapping.

Mr. EDMONDS. Would not that have to be an international agreement?

Mr. GRIFFIN. That, to be thoroughly effective, would have to be an international agreement; yes. It exists now merely in the minds of certain men who are interested in having those documents on a fair and uniform basis. It is possible that insurance legislation might

take into account that possibility and in that connection prescribe some form of policy.

Mr. EDMONDS. Do you think we have the right to prescribe the policies of private companies? We would not have any more than the right to recommend.

Mr. GRIFFIN. It would be carrying the control over foreign commerce pretty far to do it.

Mr. EDMONDS. I doubt whether we could pass any legislation which would prescribe the form of insurance policies.

Mr. GRIFFIN. That is very possible.

Mr. EDMONDS. And yet it would be a matter of great advantage if all the world should utilize the same kind and character of policy.

Mr. GRIFFIN. A uniform bill of lading would almost necessarily result ultimately in a uniform form of policy.

Mr. EDMONDS. I presume we have the right to prescribe some kind of a uniform bill of lading?

Mr. GRIFFIN. Insurance has been held not to be commerce, so I suppose the power of Congress to regulate insurance would be more doubtful.

Mr. LEHLBACH. Might that not be worked out in this manner, by the Federal incorporation of insurance companies?

Mr. GRIFFIN. Oh, possibly.

Mr. LEHLBACH. It would extend to them certain advantages and, as a condition of such incorporation, require that the companies accept a form of policy.

Mr. GRIFFIN. Possibly. I think, though, that unless that could be internationalized it might lay burdens on American interests that would be undesirable. As Mr. Ogden suggests, the States to some extent control the situation now.

Mr. KINCHELOE. As a lawyer, you would not think Congress has the power to extend that further than to those under American registry?

Mr. GRIFFIN. No; and the whole commerce of the world is so interwoven that a regulation of that sort applied to one nation, unless it was generally adopted, would be exceedingly difficult to handle and operate.

Mr. EDMONDS. A little aside from the line you are in, but owing to the fact that you are an admiralty lawyer and must of necessity have some knowledge along this line, I am going to ask you this question: Insurance companies in this country at present are not strong enough to take the amount of insurance that would be necessary to cover the ships under American registry?

Mr. GRIFFIN. I presume that is so; yes, sir.

Mr. EDMONDS. It would be necessary to reinsure in foreign companies and in that reinsurance the business would get in the hands of foreigners just the same as it has before?

Mr. GRIFFIN. It would be my opinion—although it is a matter about which a practical steamship man could speak with more authority—that the character of business done and the cargoes carried by the vessels are pretty well known throughout the world anyway. A charter is made and the market knows, in general, who has the ship and where she is going, and, if anyone is interested, he can find out what she is carrying, and anyway the customs records would show it.

Mr. EDMONDS. They are open to the public?

Mr. GRIFFIN. I understand so; but I do not know just how far they are open to the public—that is, as to the manifests and bills of lading that are filed, and I do not know whether any mere curiosity seeker would be allowed to see them. Mr. Ogden suggests that the Journal of Commerce and other newspapers very often publish the particulars of cargoes and such things. I do not think there is much secrecy about it. Of course, as to rates and terms there may be.

Mr. EDMONDS. Would it make very much difference, then, if we just let the insurance companies take all the insurance and reinsure?

Mr. GRIFFIN. So far as publicity is concerned?

Mr. EMONDS. No. Would it really make very much difference, in building up our merchant marine, if we simply allowed our insurance companies to take all the policies they wanted to take and reinsure with whatever foreign companies they desired?

Mr. GRIFFIN. That is a question I should not like to answer offhand, because I do not know enough about the technical insurance and commercial end of it.

Mr. LEHLBACH. In other words, as I understand Mr. Edmonds's question, it is this: Is there any need for legislation which will encourage the American underwriting of American bottoms?

Mr. GRIFFIN. I should imagine that American underwriters could handle American business more satisfactorily, other things being equal, than foreign companies.

Mr. KINCHELOE. Do they or can they write as cheaply as foreign insurance companies?

Mr. GRIFFIN. That, again, is a practical question of insurance that I do not feel competent to answer. I do know this, that in the past, for example, on war-risk insurance policies, which I have had occasion to see, we usually find that in private practice they distribute the business between American companies, Norwegian companies, and British companies.

Mr. KINCHELOE. Do you find the rates practically the same?

Mr. GRIFFIN. I think Mr. Ogden can tell you more about that than I can.

Mr. OGDEN. Is that war risk?

Mr. GRIFFIN. Yes.

Mr. OGDEN. A great deal of the war-risk insurance has been done by the Governments: the English Government did a large amount of it and their rates were low, and the Bureau of War Risk Insurance was a good deal lower than the market in America. But it is hard to check that up, because that is more according to the feelings of an underwriter for the reason that he might have an idea that a certain vessel was going to be torpedoed.

Mr. KINCHELOE. My idea was as to future insurance. I understand you are not writing war-risk insurance now?

Mr. OGDEN. No; that has stopped.

Mr. KINCHELOE. Can the American companies compete with the foreign companies on marine insurance or do they?

Mr. OGDEN. My idea is that the foreign companies are a little bit lower.

Mr. KINCHELOE. Your idea is that the rates are a little bit lower in Europe?

Mr. OGDEN. Yes.

Mr. KINCHELOE. How do you account for that? Is it because their overhead charges are less?

Mr. OGDEN. No; it is because of the increased volume of business and the distribution of the risk.

Mr. CHINDBLOM. An increase in the business of the American companies would obviate both of those differences.

Mr. OGDEN. Yes. There is a point that must be considered. We are largely talking about rates and conditions before the war and at the present time all repair costs have gone up from 50 to 100 per cent and, of course, that puts the burden right on the underwriters.

Mr. CHINDBLOM. Would not that same think apply to the foreign companies as it applies to the American companies?

Mr. OGDEN. Yes; but it is rather hard to check up, as far as I know, what the conditions are in the foreign companies at the present time. The insurance rates have not gone up proportionately with the cost of repairs.

Mr. EDMONDS. If we were to continue this insuring of mortgages that we take on these ships being sold, you would expect that to be done through your department, would you not?

Mr. OGDEN. Yes.

Mr. EDMONDS. Instead of the Bureau of War Risk Insurance?

Mr. OGDEN. Yes.

Mr. EDMONDS. In other words, it would mean a continuance of your Division of Insurance?

Mr. OGDEN. Yes, sir.

Mr. EDMONDS. Suppose a man who buys a ship and gives you a mortgage on it can get insurance from either American or foreign companies, would there be any advantage in continuing your department?

Mr. OGDEN. No; and I think it is the idea of the Shipping Board to have the new owners place as much insurance as possible with the commercial companies and relieve us of it.

Mr. EDMONDS. Is it the idea of the Shipping Board to object to the placing of it with foreign companies?

Mr. OGDEN. It has not been so far that I know of; in fact, I know of one or two cases where practically the whole risk was placed with foreign companies.

Mr. KINCHELOE. Did they write it as cheaply as your bureau did?

Mr. OGDEN. No; I do not think they did, but I have not seen those rates.

Mr. EDMONDS. I think the idea is this: That the American insurance companies are growing stronger every day in marine insurance, and there are more of them taking it up, and that by carrying this insurance with the Shipping Board we can eventually keep all of the insurance on these ships in this country. Now, there may be some particular advantage about this and I am trying to find out what it is. Of course, there is a great advantage, looking at it from our standpoint, in having all of this insuring done in this country and all the money paid in this country, and if by holding back and having governmental insurance on a portion of the ships we can so encourage these American insurance companies that they will gradually grow stronger until they can hold the whole risk, then we can go

out of business, and it may be a very good thing. But I am trying to find out exactly what that reason is.

Mr. GRIFFIN. Of course, keeping this money in this country is one reason, and another reason is that in case of any discrimination abroad against American vessels on the part of underwriters or any possible governmental regulation that would work to our disadvantage, we would be in a position to paddle our own canoe as far as insurance is concerned.

Mr. CHINDBLOM. We might at some time be at the mercy of the foreign companies, might we not?

Mr. GRIFFIN. Exactly.

Mr. CHINDBLOM. Suppose they wanted to make it as difficult as possible for Americans to engage in foreign commerce; they might get the notion to raise the cost of our insurance so as to cripple us.

Mr. GRIFFIN. That is right, sir.

Mr. KINCHELOE. That would raise the question as to whether it would be good policy for us to go out of this Government insurance business too rapidly. As far as this investigation is concerned, as one member of the committee, I am not so much interested in what you did in war times but in what can be done to provide a great American merchant marine. That is what I want to see done.

Mr. EDMONDS. My idea was to ascertain the value of this service and how far we could go to continue this insurance so as to keep it in this country?

Mr. KINCHELOE. I thoroughly agree with you.

Mr. CHINDBLOM. I suggested a moment ago the possibility of foreign companies crippling us and I want to know whether, as a matter of fact, that would be possible?

Mr. GRIFFIN. I should say it would be entirely possible.

Mr. CHINDBLOM. Is not the business of the world so interwoven that it would be pretty hard for one country to discriminate against the rest of the world?

Mr. GRIFFIN. Well, it all depends on what acute commercial conditions might arise.

Mr. LEHLBACH. There would have to be an agreement as to that among the various countries. If England tried to raise the rates and the French and Germans—if Germany gets back into the game—should try to get the business, there would have to be a conspiracy that embraced all the countries in order to do all of the marine underwriting business.

Mr. GRIFFIN. I am not so sure that that would be the case. I imagine that if the British market were closed it would be enough to tie us up, because a great deal of our insurance is written in Great Britain.

Mr. KINCHELOE. Does this authority for Government insurance in the War Risk Insurance Bureau and the Shipping Board cease when the war is legally over? Do your powers cease under this act when the war is legally over?

Mr. GRIFFIN. So far as the Shipping Board is concerned, the power which it has received from the President to operate ends six months after the proclamation of peace with Germany, and I take it that everything incident to that operation will cease at the same time.

Mr. LEHLBACH. So far as the War Risk Insurance Bureau is concerned, it ends two years after the war if not sooner.

Mr. OGDEN. And they really ceased to do business the first of the year?

Mr. EDMONDS. I can see where the Shipping Board under the original shipping act could continue doing just exactly what it is doing, because there was $50,000,000 appropriated as a revolving fund with which to buy and sell ships. Now, six months after the war is over, they are going to have some ships, and they are going to have to run those ships, and they will have $50,000,000, or a portion of it, and if they wish to set aside $5,000,000 or $10,000,000 of it as an insurance fund there would be no reason why they should not do so, because they have no authority at the present time for doing what they have done, except the President's general authority, and I am certain that the shipping act would give them that same general authority.

Mr. GRIFFIN. There are certain restrictions on the methods and extent of the operations in the original shipping act, and it would make it rather difficult to operate a fleet under that act alone. For example, section 11 forbids operation by the Fleet Corporation unless no private operators or purchasers can be secured.

Mr. EDMONDS. Then, it would require a change in legislation?

Mr. GRIFFIN. Yes.

Mr. EDMONDS. Yet I can see how, if they wished to utilize a portion of this fund for insurance, they could very easily work out arrangements by which it could be done.

Mr. GRIFFIN. So far as that goes, I think they could.

Mr. LEHLBACH. Are there any further questions for either this witness or Mr. Ogden? If not, the committee will excuse them for the time being.

(Thereupon a recess was taken until 2 o'clock p. m.)

(The subcommittee met pursuant to recess at 2 o'clock p. m.)

AFTER RECESS.

STATEMENTS OF MR. R. G. CHOLMELEY-JONES, DIRECTOR; MR. W. R. HEDGE, PRESIDENT OF THE BOSTON INSURANCE CO. AND MEMBER OF THE ADVISORY MARINE BOARD; AND MR. E. M. PETERS, ACTING COMMISSIONER MARINE AND SEAMEN'S DIVISION, BUREAU OF WAR RISK INSURANCE.

Mr. LEHLBACH. I think when the committee arose for a recess it was determined to hear Director Cholmeley-Jones, of the Bureau of War Risk Insurance.

Mr. CHOLMELEY-JONES. What would you like me to review, Mr. Chairman?

Mr. LEHLBACH. We would like you to outline the organization of your bureau, its activities, the cost of administration, your personnel, etc., in so far as it relates to the underwriting of maritime war risks.

Mr. CHOLMELEY-JONES. The Bureau of War Risk Insurance was originally established to write marine and seamen's insurance, war-risk insurance, and not the regular marine insurance. That was under a director who was Director De Lanoy.

We have to date insured under the marine insurance $2,067,112,116 worth of marine insurance. The premiums collected on that amounted to $46,746,409.33. The losses paid and pending amount to $29,940,795.59. The net profit on that marine business amounts to approximately $16,630,768.66.

Mr. LEHLBACH. That is less the administration charges?

Mr. CHOLMELEY-JONES. Yes. In the seamen's division against loss of life and injury, for the war risk, the net amount written is $322,429,208.54, and the premiums collected amounted to $842,348.18. The losses, including those that are awaiting proof for adjustment, amount to $310,077.81. The expenses of doing that business amounted to $66,128.75, showing a net profit for the seamen's division of $465,701.06. The cost of the marine department from September 2, 1914, to May 19, 1919, amounted to $174,845.08, making the total cost for operating the Marine and the Seamen's Divisions $240,973.78.

The bureau, as you all know, covered only the war risk, and it was optional with the owner of the hull or the cargo whether he wanted to insure the war risk except in the case of the seamen, where it was compulsory. The act provides that the Marine and Seamen's Division of the War Risk Bureau shall have an advisory board of three commissioners, and the three commissioners were Mr. Henden Chubb, whom you know, and who has recently resigned from the board; Mr. William N. Davey; and Mr. William R. Hedge, who is here to-day.

Mr. LEHLBACH. That is the same advisory board that the Shipping Board had originally?

Mr. CHOLMELEY-JONES. The Shipping Board adopted the same advisory board. The rates and premiums were recommended by the advisory board and they were accepted. It was not compulsory that those rates be accepted, but it was the best counsel available, and it was wise to accept those rates.

Mr. LEHLBACH. Have you any knowledge as to how those rates were arrived at? I suppose on a war risk they could not be based on experience but largely on guess.

Mr. CHOLEMELEY-JONES. I would like to ask Mr. Hedge to answer that question.

Mr. HEDGE. That is true, Mr. Chairman, of all marine rates. Of course, the act provided for three men experienced in war risk. Of course, none of us had lived through many wars, but we had very close figures kept, and each month we figured out just exactly whether the bureau was running ahead or running behind, and also we had the market rates. Mr. Chubb and myself were running insurance companies, and we knew what we were charging in our companies and what was generally being paid in the market. We also knew what the British Government was charging in their rates, and, as a rule, what the French Government was charging. The object of the act was to supplement the American market and provide insurance where it could not be secured at reasonable rates. The Government was then ready to take it, so that the American merchants could always come to the Government and get insurance at reasonable rates.

Mr. LEHLBACH. How did the market compare with the rates that you fixed?

Mr. HEDGE. When we reduced rates the market usually followed the reductions, but not altogether. Sometimes our rates were lower

than the individual companies cared to write. The business was not all done, as Mr. Cholmeley-Jones pointed out, by the bureau, as a great many merchants preferred to insure with insurance companies that they had always insured with and pay extra.

Mr. Lehlbach. The act establishing the bureau says that the Bureau of War Risk Insurance shall, etc., make provisions for the insurance by the United States of American vessels, their freight and passage moneys, and cargoes shipped, etc., against loss and damage by the risks of war whenever it shall appear to the Secretary that American vessels, shippers, or importers in American vessels are unable in any trade to secure adequate war-risk insurance on reasonable terms. How was that proviso applied? Strictly, would you chase prospective customers away and make them prove that they could not get insurance anywhere else.

Mr. Hedge. No.

Mr. Lehlbach. Or would you assume when they applied to you that they had been unable to place the insurance elsewhere?

Mr. Hedge. If we had followed your first suggestion, we would have defeated the object of the bureau. In the early days we took limited amounts, and then if we found that the market was filled up and that there was a constant demand, we increased those amounts. Of course, we had pretty good information as to the demand. At the time of the war values were tremendously high. The values of the ships were high and the values of the cargoes were high, and there were cargoes running as high as seven or eight million dollars coming from the rivers.

For instance, you take the Barbour Line of vessels from the River Plata with full cargoes of wool, they would run on up to seven or eight million dollars, and the object of the bureau made it absolutely necessary to protect the merchants; but to answer definitely your question, we could not have followed up and made sure that every insurance company had its full line. That would have been absolutely impracticable.

Mr. Cholmeley-Jones. When any application was made for insurance, we wrote it so far as the war risk was concerned.

Mr. Lehlbach. How did your premiums compare with the premiums of foreign Governments?

Mr. Hedge. We were on an entirely different basis. The British Government started out with one rate; that is, they would cover the risk from Calcutta to London at the same rate they would take it from Havre to London. We started on an entirely different basis. We made a rate from the United States Atlantic coast to Great Britain, and we had another rate out to the Far East, and we had a third rate down to South America, etc. I think we had twenty-odd different classifications, and we graded the rates according to the individual risk in each class. On our coast, for instance, the rate was nominal, because there was practically no risk. When we ended we had about 40 different classes.

Mr. Edmonds. That just covered the war risk, of course?

Mr. Hedge. That just covered the war risk alone. That is all the act covered. It did not cover what we ordinarily call marine insurance.

Mr. Edmonds. That was taken care of by the ordinary companies?

Mr. Hedge. Yes.

Mr. EDMONDS. Are you taking on any insurance now?

Mr. CHOLMELEY-JONES. No; that has stopped.

Mr. EDMONDS. It has stopped absolutely?

Mr. CHOLMELEY-JONES. Yes; no contracts are being made. We are not taking a single contract, but we are making adjustments on old contracts.

Mr. EDMONDS. And you are not taking any seamen's insurance?

Mr. CHOLMELEY-JONES. No, sir.

Mr. EDMONDS. Then you are virtually out of business?

Mr. CHOLMELEY-JONES. Yes.

Mr. EDMONDS. Have you any general report as to the financial status of the operation outside of what you gave us just now?

Mr. CHOLMELEY-JONES. Oh, yes; I can furnish that. I have given you the net.

Mr. EDMONDS. Can you give it to us in a more itemized form?

Mr. CHOLMELEY-JONES. Yes; very easily.

Mr. EDMONDS. Will you furnish that information with your testimony?

Mr. CHOLMELEY-JONES. I will be very glad to do so and will furnish it to-day.

Mr. EDMONDS. This will virtually then clean that business up?

Mr. CHOLMELEY-JONES. Yes; it was strictly a war risk.

Mr. EDMONDS. And that department is virtually abolished now?

Mr. CHOLMELEY-JONES. Yes. It is interesting, for your information, to state that the total amount of money appropriated to the Marine and Seamen's Division has been approximately $50,000,000. We collected in premiums $46,746,409.33. The losses were $29,940,795.59, so we have had a net profit of nearly $17,000,000, and the bureau has shown that profit without touching the $50,000,000. Now, whether or not for a time we used part of that $50,000,000 I do not know, but just looking at it from the result the bureau itself has shown this profit of about $17,000,000.

Mr. LEHLBACH. You keep your war-risk insurance absolutely separate?

Mr. CHOLMELEY-JONES. Absolutely separate.

Mr. LEHLBACH. From your soldiers' and sailors' accounts?

Mr. CHOLMELEY-JONES. Yes; and here is a thing that has no direct bearing on this matter, but I think you would like to have it as a matter of information, although not necessarily for this record. The operation of the entire Bureau of War Risk Insurance, if, for instance, you took that profit and credited it to the operation of the bureau as a whole, the bureau in its entire operation, except the appropriations for allowance and compensation, would have cost the Government to date only $2,000,000. It has cost us about $19,000,000 to date.

Mr. EDMONDS. You mean with this profit off?

Mr. CHOLMELEY-JONES. Yes; all the administrative overhead.

Mr. EDMONDS. In other words, you made enough out of the shipping end to——

Mr. CHOLMELEY-JONES (interposing). To almost cover the entire operation of the bureau. I think that is interesting to you who have created the act.

Mr. EDMONDS. Well, it is very satisfactory considering the way money is nowadays.

Mr. CHOLMELEY-JONES. Yes. We have that profit and we still have the $50,000,000.

Mr. EDMONDS. Of course your report would indicate that there is an enormous profit in marine insurance.

Mr. CHOLMELEY-JONES. On the war risk part of the marine insurance.

Mr. EDMONDS. Yet, as a matter of fact, had you paid a commission to agents as the marine insurance companies have had to do you have not made any more money than would have covered that. In other words, if the insurance companies had been writing this they would probably have paid to the agents 10 per cent for writing it.

Mr. CHOLMELEY-JONES. Yes.

Mr. EDMONDS. You covered so many hundred million dollars' worth of insurance and if that 10 per cent was figured on the insurance or on the premiums, the probability is that the marine insurance companies are no better off than you are. In other words, you made as much as they would less the commission.

Mr. CHOLMELEY-JONES. Yes; that would be very easily determined because you would only have to figure the profit on the volume written.

Mr. EDMONDS. You do not take into consideration the rent of offices here in Washington or anything like that in your report?

Mr. CHOLMELEY-JONES. No, sir; but that could be very easily figured, because we could tell very easily the number of personnel and you can average the square foot area per employee.

Mr. LEHLBACH. Suppose we have a résumé of the personnel engaged in the marine war risk end of your department.

Mr. CHOLMELEY-JONES. Yes. The maximum number of employees for both the marine and seamen's section was 89 employees. There are now the acting commissioner, Mr. Peters, one messenger, and seven clerks. To-day there are only nine people in that section, and at the maximum there have only been 89 people, so that the office overhead which you so well inquired about would be at the rate of—some of our space down there for our employees is so small that I do not dare tell it, about 35 square feet per person, when you are supposed to have between 40 and 45, and when you include the files you ought to have 60, but we are rather congested, although it is all right and we are working well under those conditions.

Mr. EDMONDS. How long do you think it will be before you get all this work cleared up?

Mr. CHOLMELEY-JONES. We are clearing it up very quickly. How soon do you think, Mr. Peters?

Mr. PETERS. We can clear it up as soon as the people who have claims will present their claims. We have less than 40 outstanding claims in the marine section. In the seamen's division we can clean up the underwriting end of it as soon as we can get completed applications from the Shipping Board and the United States Railroad Administration and some others who have refused to send in their applications, in which case we are going to turn the matter over to the Department of Justice for settlement. We have a lien upon the vessel of any owner who has not made his application, with $1,000 fine for each failure. We have practically ceased to underwrite, and

that end is practically cleaned up, and we are only waiting for two things, the Shipping Board and the Railroad Administration, and three other people in the marine section who have not given us final, closing figures. We are writing those up now without waiting for that. As to the loss end of it, it is hard to tell, because they are mostly foreign claims, and we have to be very careful to see that we are making our payment to the persons legally entitled to it.

For example, we have a claim to-day in which the Ionian Bank, of Greece, and the Metal & Mechanics Bank, of New York, and a Mr. Pappadan, of Syria, have all filed a claim for the same money. We also have a claim where Mr. Jandola, of Egypt, and the Milton Piano Co., of New York, are having a dispute as to who should receive the money, and Mr. Cocarro, of New York, has also filed a claim that he owns the goods. We think they belong to Mr. Jandola, of Egypt, and we will not pay the claim until we hear from him. The settlement of those claims depend upon various factors of that nature. We only pay the claim to the person who actually owned the goods at the time of the loss, and we are cleaning up the work just as rapidly as possible.

Mr. EDMONDS. There is no legislation which it is necessary for us to repeal in order for you to clean up your work, because the act carries that authority.

Mr. CHOLMELEY-JONES. Yes, sir.

Mr. EDMONDS. And you have virtually gone out of business because there is no war risk any more?

Mr. CHOLMELEY-JONES. That is true.

Mr. EDMONDS. There is no call on you on account of these floating mines or anything of that sort?

Mr. CHOLMELEY-JONES. No, sir; it is all being closed right up and we are completing our records. The private companies are still writing a war-risk policy but not the Government. For instance, the marine companies will possibly charge an extra premium for the risk of bumping into a mine as compared with the usual dangers at sea.

Mr. EDMONDS. But it is the intention of your department to clean up the work and get out of the business as fast as it can be done?

Mr. CHOLMELEY-JONES. Yes.

Mr. EDMONDS. You do not want to go along any further?

Mr. CHOLMELEY-JONES. Our particular job which Congress instructed us to complete has been completed, and unless you had some other plans, why, we had no opinion. Since January 4 there has been no further risk taken.

Mr. LEHLBACH. We have a call over to the House on the point of no quorum, and I think we have about finished everything that we can get from these gentlemen at this time, and we might as well adjourn.

Mr. EDMONDS. Yes, unless they have some suggestion to offer.

Mr. CHOLMELEY-JONES. I think this, Mr. Edmonds, that as you progress in your meeting you will have certain things you might wish to ask of the bureau, by reason of our experience; for instance, in connection with certain proposals which you have under consideration to make to Congress, you might care to inquire as to the facilities that the bureau has had or is able to create to provide for such program as you may present. And I think we could be of more

help in answering some of your specific inquiries because we have a fund of information.

Mr. EDMONDS I think that is quite true.

Mr. CHOLMELEY-JONES. It is hard for us to initiate.

Mr. EDMONDS. And it is hard for us until we know more about it.

Mr. CHOLMELEY-JONES. It is at this time.

Mr. EDMONDS. Before we get a little deeper into the subject.

Mr. CHOLMELEY-JONES. Yes; but we are ready at your notice and have a fund of information and we have opinions; but it would not be well to express opinions until later, I think.

Mr. EDMONDS. You would not suggest any repeal of this act, would you? I am not quite sure, but it does not seem to be limited to this war; it seems to be general legislation.

Mr. HEDGE. This must terminate within three years after the termination of the war by proclamation of the President. That is provided for in the act.

Mr. EDMONDS. It does not say what war.

Mr. PETERS. It says:

> That the President is authorized whenever in his judgment the necessity of further war insurance by the United States shall have ceased to exist to suspend the operation of the act, in so far as it authorizes insurance by the United States against loss or damage by risks of war, which suspension shall be made, in any event, within four years after the passage of this act, but shall not affect any insurance outstanding at the time or any claims pending adjustment.

That is the act of June 12, 1917. When you passed the act of October 7, creating the Marine and Seamen's Division, that merely referred to sections 2, 7, and 9. This section 9 I have just read ends up:

> For the purpose of the final adjustment of any such outstanding insurance or claims the Bureau of War Risk Insurance may, in the discretion of the President, be continued in existence a further period not exceeding three years.

Mr. EDMONDS. In other words, it would still be an act, and at any time within three years it could be revived again?

Mr. CHOLMELEY-JONES. Oh, yes.

Mr. CHINDBLOM. Is that three years after the termination of the war?

Mr. CHOLMELEY-JONES. After the President's proclamation.

Mr. EDMONDS. The act of July 11, 1918——

Mr. PETERS. Section 9 of the act of June 12, 1917, if you have it there, at the time you created the seamen's section. The original act of September 2, 1914, provided for one year's existence only.

Mr. HEDGE. As I understand the act, this bureau ran for four years only unless it was terminated prior to that; then it continued for three years, once it was terminated, for winding up outstanding claims, etc.?

Mr. EDMONDS. It says "may at the discretion of the President be continued in existence for a further period not exceeding three years."

Mr. PETERS. Yes; for the purpose of final adjustment of any such outstanding insurance or claims.

Mr. CHINDBLOM. And from what time is that three years?

Mr. HEDGE. That is three years after it is suspended as provided in the preceding sentence. The President suspends the bureau, and then it continues for three years.

Mr. EDMONDS. That was afterwards amended by the act of July 11, 1918—section 9 of the war-risk insurance is hereby amended as follows. So that is the final say so, which gives the President three years to clean up, and he must close out the business six months after the end of the war or he may stop it at any time if he chooses. That is the act—public, 195. That supersedes everything else.

I do not think that we can do very much this afternoon until we get some more data to go on, and we will be very glad indeed to get your data.

Mr. CHOLMELEY-JONES. That is my opinion.

Mr. EDMONDS. And as your final act, we would like to have a little summary of the financial status and balance sheet, so that we can put it in our hearing here.

Mr. CHOLMELEY-JONES. I would be very glad to send you that immediately.

Mr. HEDGE. Other than as a member of the advisory board, and speaking as a underwriter, may I ask if this committee would like the American underwriters to make any suggestions or bring forward any information for their consideration?

Mr. LEHLBACH. Yes. I was about to suggest Mr. Hedge, as an underwriter rather than as an official under the Government, could give valuable suggestions and testimony to the committee based on his experience, and I was going to ask if the committee thought it advisable to ask him to proceed at this time along the present line, or to wait until we have more facts at our disposal upon which we can more intelligently base questions and assimilate such advice and suggestions as Mr. Hedge can offer.

Mr. HEDGE. I would be delighted to make some suggestions, only I would rather like to do it after more careful thought. I only got word of this last night, when the director telephoned and asked if I would come down, and when it comes to a matter of new legislation, it is a matter of very great importance and I would like to make suggestions after more mature thought.

Mr. GREENE. I think so myself.

Mr. HEDGE. I made two or three notes of points as we went along. One item I thought would be of particular interest to you is this: I can count up 35 new American companies who have gone into marine insurance since the beginning of the war. Some of them are brand-new marine companies, but a great many of them are fire companies whose charter gave them the right to write marine insurance, but they were not exercising that privilege. The tremendous demand for war-risk insurance and the big profits from writing marine insurance caused those companies to go into the marine insurance business. So that the capital and surplus of those new companies that have gone into marine insurance since 1914 amount to $141.815,000.

Mr. LEHLBACH. Let me ask you, Mr. Hedge: Do you believe the existing insurance companies handling maritime marine insurance risks are to-day strong enough, all the companies organized, new as well as old, to absorb the risks here in the market on American bottoms?

Mr. HEDGE. When you say "companies," you mean strictly the Amercian companies?

Mr. LEHLBACH. I mean American companies.

Mr. HEDGE. You do not include American branches of foreign companies?

Mr. LEHLBACH. No; American-capitalized companies.

Mr. HEDGE. On the highest-valued boats, I should say no, not quite. I figured up yesterday that the market afforded prior to the war, to American companies, the total on one bottom, $1,300,000 as conservative. And I have figured as of to-day that the American companies would give up to $3,800,000. In case of necessity the American companies could carry a great deal larger risk. For instance, our company has assets in Boston of $11,000,000, and we write on an individual boat now about $25,000, and $10,000 subsidiary, making a total of $35,000. That we could increase in case of necessity, or if there was a big volume of business which would justify us increasing the average risk.

Mr. LEHLBACH. Is the marine insurance business in this country, carried on by American companies, in a position successfully and profitably to compete with foreign companies, so that it would be able to attract whatever additional capital might be necessary to write ships under American registry and flying the American flag?

Mr. HEDGE. Of course American companies must necessarily compete with foreign companies. A man exporting leather, for instance, from New York to London, if the rate was 25 cents in America, and he could buy insurance from English companies in London for 20 cents, the purchaser would object to paying the 25-cent rate, the goods would be sold f. o. b. Boston consignee, plus the market rate in London, or wherever the market was cheapest. And it must necessarily be that way. For instance, our importers, if we charged S. S. Purse & Co., Boston, 25 cents, and their shippers could insure their goods for 15 cents at the other end, they would naturally not be willing to pay us the 25 cents. So on these cargoes, we have an open, world-wide competition. When you come down to the hulls, the hulls are divided, a large proportion in this country and a constantly increasing proportion in this country, and the balance in London. The rate paid to the London underwriters and the rate paid to the New York and Boston underwriters is absolutely the same. But the American underwriters are under heavier expense, because they have their main office and branch offices, and they have to pay larger salaries to their agents.

Mr. LEHLBACH. Are the American underwriters making any money?

Mr. HEDGE. Marine?

Mr. LEHLBACH. Yes.

Mr. HEDGE. I do not believe on the strictly marine business the American underwriters made a dollar last year. I can not answer definitely, because the war-risk premiums and marine premiums were not kept separate. The individual companies may have kept them separate, but they are not public. Of course, in normal times you do not have this war-risk premium and you do not have that profit. That profit is a great deal larger than we had any reason to expect. Our Navy and the English Navy curbed the submarine far better than we expected, and that is where that profit comes that the bureau shows.

Mr. EDMONDS. We want to hear our underwriters association. Mr. Rose is president of that, isn't he?

Mr. HEDGE. He is president of one association.

Mr. EDMONDS. Yes, he is president of one association. We want to hear them all, and we also want to hear from the American Bureau and get some comparison between the action of the American Bureau and Lloyds.

Mr. HEDGE. Yes, that is something I think you are particularly interested in. That came up this morning.

Mr. EDMONDS. Now, we want to go on with these hearings until we complete that whole general line of thought and see what is necessary to be done. Naturally I am opposed to Government ownership, myself, and I do not want to do any more insurance than it necessary to do. At the same time, if there is an advantage in the foreign trade to have the Shipping Board insure these cargoes temporarily, if that is necessary, or anything of that kind, I am willing to have the Government go to any limit to help the Shipping Board.

Mr. HEDGE. I think that is the Shipping Board's problem, pure and simple.

Mr. EDMONDS. But we can stop that if we do not want them to do it.

Mr. HEDGE. Yes.

Mr. EDMONDS. And those are things we are studying out. We do not want your bureau to do any more insurance than you have to; and, at the same time, if it is advantage to American shipping to conduct this business, we are perfectly willing to go on with it. But we want to know if it is an advantage before we do that.

Mr. HEDGE. Would it be of assistance to your committee and would you welcome it if I acted as spokesman for your committee at the American Underwriters' meeting, and asked them to draw up their recommendations, and the reasons therefor, so as to put before you the recommendations of the American companies?

Mr. LEHLBACH. We would appreciate that, Mr. Hedge.

Mr. HEDGE. I would be very glad to do that.

Mr. LEHLBACH. And we would further appreciate this if you would write to the secretary of this committee or myself or anyone—it does not make any difference—giving your suggestions as to legislation, and so forth—and we expect to hear you—and also offering any suggestions you might have as to who should be invited to present views to this committee, particularly representing the underwriting companies and the other interests that have a knowledge and experience and are interested both in shipping and the insurance of it—the writing of the insurance and the getting of the insurance.

Mr. EDMONDS. We would be glad to have their views and we want to have them come down here and go over what puzzles us. We want to make this hearing the most complete hearing on marine insurance that has ever been made and make it as an individual marine insurance proposition. And it is up to you folks, who are experts in the business, to come in here and tell us, because when we finish, if we are going to put out any legislation on this thing we want to put it out for all time, so that there can never be any complaint come to this committee that our laws are not right. We want to finish this marine legislation if it takes six months to do it, and we are willing to devote that time to it and we have the authority.

Mr. HEDGE. The marine underwriters appreciate that suggestion very much, and I think they will be of assistance and can answer your questions directly, perhaps better than anyone else.

I noticed this morning, also on the question of deviation, you said there had been complaints. I know four fleets in Boston, all placed on the 4 per cent rate, confined to the seaboard and River Plata, limited. If they want the privilege of the Pacific coast via Panama Canal they pay 4½ per cent. If they want world-wide they pay 5 per cent. If one of that fleet pays the 4 per cent rate and afterwards decides they want to send the vessel over to London, they have to pay an additional rate of deviation. He has a reduced rate because he has restricted navigation.

Mr. EDMONDS. We want to get you folks a policy just the same as they have in the other countries.

Mr. HEDGE. I do not think you need worry about the policy at all. We would not want a standard policy. One man requires certain conditions, and another man different conditions. One wants oil, another wants leakage cover, and another won't want leakage cover. I think you won't want to inquire about policies, because you will get into very complex difficulties if you do, and I do not think there is any legislation necessary. In fact, you might have a boomerang and hurt the American merchant, and you had better let him do the best he can.

Mr. EDMONDS. You might say in your report how much the insurance on foreign ships would be.

Mr. CHOLMELEY-JONES. None.

Mr. HEDGE. We are only authorized to write American hulls.

Mr. EDMONDS. No; you were authorized to write the Allies' ships, too.

Mr. PETERS. When chartered by the Shipping Board on the cargoes.

Mr. EDMONDS. You might say how much you did on foreign ships—so much on American ships and so much on foreign ships—in making up the report. Any time in the next week or 10 days will do.

Mr. CHOLMELEY-JONES. I will have that for you to-morrow.

Mr. PETERS. We have 30 different classes.

Mr. EDMONDS. I think we would like to hear what the result of the committee's work is on that.

Mr. HEDGE. Will your hearing be on any definite dates?

Mr. EDMONDS. No, I do not think so; but we want to go on right away, and when you have your underwriters' association ready to come down, then we can call down the rest of these people and have them all down here and take a couple of days to it and go right through with it.

Mr. HEDGE. How soon would you want them to come down?

Mr. EDMONDS. I should say next week.

Mr. HEDGE. About the middle of next week?

Mr. EDMONDS. About the middle of next week. You can notify the chairman when you are ready.

(The hearing was thereupon adjourned subject to the call of the chairman.)

MARINE INSURANCE.

SUBCOMMITTEE OF COMMITTEE ON THE
MERCHANT MARINE AND FISHERIES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., July 16, 1919.

The subcommittee met at 10.30 o'clock a. m., Hon. Frederick H. Lehlbach presiding.

Mr. LEHLBACH. At our former hearing, when the Director of the Bureau of War Risk Insurance, Mr. Cholmeley-Jones, was before the committee, a request was made that he furnish us with certain data. I am in receipt of a letter from the director, under date of July 12, transmitting a detailed statement of the finances and operation of the Marine and Seamen's Division, which will be inserted in the hearing at this point.

I am also in receipt of a list of losses for which the insurance fund of the United States Shipping Board Emergency Fleet Corporation is liable, from Mr. B. K. Ogden, Acting Director of Insurance, United States Shipping Board Emergency Fleet Corporation, which will follow the report of Mr. Cholmeley-Jones in this record.

TREASURY DEPARTMENT,
BUREAU OF WAR RISK INSURANCE,
Washington, July 12, 1919.

Hon. FREDERICK R. LEHLBACH,
Chairman Committee on Merchant Marine,
House of Representatives, Washington, D. C.

DEAR MR. LEHLBACH: In accordance with your request at the close of the hearing held by the subcommittee on miscellaneous business of the Committee on Merchant Marine, Wednesday, July 9, 1919, I herewith submit for your examination and that of the other members of the committee, a detailed statement of the finances and operation of the marine and seamen's division.

Very truly, yours,

R. G. CHOLMELEY-JONES,
Director.

TREASURY DEPARTMENT,
BUREAU OF WAR RISK INSURANCE,
Washington, July 10, 1919.

The act creating the Bureau of War Risk Insurance was approved September 2, 1914. The bureau was organized September 3, 1914. The purpose was to issue war risk insurance on hulls, cargoes, and freight in order to provide adequate protection to American shipping. It was found that private companies could not at that time issue insurance in amounts large enough to give the protection required.

The first policy was issued on September 28, 1914, and from that date until July 10, 1919, 27,215 contracts have been issued representing net insurance in the sum of $2,067,112,116. The net premiums received on this insurance amount

to $46,746,409.33. The following tabulation shows the net amount of insurance and net premiums written and received, divided into periods:

	Net insurance.	Net premium.
Sept. 2, 1914, to Apr. 5, 1917	$305,442,604	$5,231,070.78
Apr. 6, 1917, to Dec. 31, 1917	696,094,921	31,803,653.18
Jan. 1, 1918, to Dec. 31, 1918	983,377,891	9,459,013.62
Jan. 1, 1919, to July 10, 1919	82,196,700	252,671.75
	2,067,112,116	46,746,409.33

The period from January 1, 1919, to July 10, 1919, has been one during which great sums of insurance have been canceled and large return premiums made. Therefore the amount of net insurance and premiums is very small. These cancellations have been due to readjustments necessary to complete pending and otherwise uncompleted applications. No new risks were accepted after January 4, 1919.

The total losses paid and estimated (and we are estimating all losses of which we have record) are $29,940,795.59. This sum is in excess of what will be the actual and final figure, for the reason that where we have an unsettled claim we are carrying an estimated figure at the maximum amount, and many of these claims will be settled for an amount very much less than the amount held pending. For example, we are holding estimated $400,000 on the hull of the steamship *New York*. This is a partial loss and will result in a loss not in excess of $225,000 to $250,000. On the same steamer we are holding as estimated five cargo claims totaling $135,675. We have sufficient evidence submitted at the present time to show that these cargo losses will be settled for less than $35,000. We therefore are carrying possibly $250,675 more estimated than will be actually paid on this particular steamer and cargo. I herewith append as Exhibit A a statement of losses of the marine section, divided into hull, cargo, and freight; and I herewith append as Exhibit B a subdivision of this loss sheet showing the total and partial damage losses, with the number of claims and the amount paid and pending under each of the hull, cargo, and freight losses. The losses reported for the period corresponding to that in which the insurance was written are as follows:

Sept. 2, 1914, to Apr. 5, 1917	$2,719,462.63
Apr. 6, 1917, to Dec. 31, 1917	21,044,658.24
Jan. 1, 1918, to Dec. 31, 1918	6,176,674.72
Jan. 1, 1919, to July 10, 1919	
	29,940,795.59

The total expenses from September 2, 1914, to May 19, 1919, were $174,845.08. Since May 19 to date our expenses have been very light, and our estimated profits used in figures hertofore noted from the operation of this section are $16,630,768.66. These expenses do not include charge for rent, but do include charge for furniture, electric lighting, ordinary supplies, telegrams, cables, and all clerical expenses.

In determining the value of a hull upon which we were writing insurance, the dead-weight tonnage, the class of construction, and the age of the vessel were carefully considered, and the value determined on a basis of certain value per ton, but until July 21, 1917, we placed no limit upon the amount of insurance which a shipper might procure upon cargo except that he must procure a corresponding amount of marine insurance. It is therefore a fact that many cargoes insured up to that date were greatly overvalued. On and after that date we limited the amount of insurance on cargo, not only to the amount of marine insurance carried, but to invoice, including freight, insurance, and other charges when prepaid, plus 10 per cent.

The largest hull loss was that of the *John D. Archbold*, upon which we carried a risk of $2,200,000 and paid a total loss in that sum. The largest loss by reason of the sinking of any one vessel was that of the *Argonaut*, on which steamer we carried $516,500 on hull and $3,950,836 on cargo, and paid a total loss in the sum of $4,454,095.15.

The largest amount of risk on any one steamer of which we have available record, is on the steamer *Kermanshaw* on a voyage from New Orleans to Havre

on or about May 13, 1916, on which vessel, hull and cargo we carried a total risk of $8,274,023. The amount at risk on many other transatlantic voyages ran up into the millions, three to six millions being frequent risks.

We also had millions at risk on various vessels to and from the west and east coasts of South America. Most of these vessels were of foreign ownership and our insurance in such cases was on the cargo.

Our policies were written to cover in the name of the assured named "for account of whom it may concern." Therefore we have no method of determining exactly who was the party at interest on policies except those upon which we paid a loss. It is a fact that during the first part of the operation of this section we issued policies in the names of brokers, forwarding agents and shipping agents. Later we tried to prevail upon the parties applying for insurance to disclose the names of the parties intere ted, but this was not mandatory and was not insisted upon to the extent of having this desire carried out. It is therefore impossible to determine exactly what proportion of the cargo carried was foreign owned and what proportion American owned.

On losses amounting to between fourteen and fifteen million an examination has shown that at the time of loss the ownership was 32 per cent American and 68 per cent foreign. The approximate total amount of American-owned cargo was 53.45 per cent, valued at $449,157,770.95; the approximate total amount of foreign-owned cargo was 46.55 per cent, valued at $391,174,822.05, making a total of $840,332,593.

Util the latter part of the operation of this division of the bureau we confined our hull insurance to American-owned vessels only; subsequently we wrote insurance on foreign-owned vessels when the vessels themselves were requisitioned by the United States Shipping Board. No division has been kept as to American or foreign-owned vessels in so far as insurance and premiums are concerned, but out of a total of $1,203,890,723 insurance on hulls, and $23,970,980.82 premiums on same, it is safe to assume that 99 per cent at least was American owned.

The seamen's section of the Marine and Seamen's Division commenced business on June 26, 1917. This section issued policies to insure against loss of life, injury under certain specified conditions, and detention, due to risks of war, The basis of the amount of insurance was 12 times the monthly wages, including bonuses, of the insured seamen as shown by the shipping articles, with a minimum, however, of $1,500 for each man so insured, and a maximum of $5,000. While the insurance in the marine section on hulls, cargoes, and freight was voluntary, the insurance in the seamen's section was, to those taking certain voyages prescribed by the Secretary of the Treasury, mandatory, although it need not necessarily be taken with the Government. We, however, insisted upon examination of a policy if the assured or owner of the vessel took his insurance ont with some other company than the bnreau, and inasmuch as no private company provides for insurance to cover the detention hazard we have in every case ruled that the owner of the vessel or charterer must procnre this insurance with the bureau. The detention feature is to cover the loss of wages, actual or theoretical, due to the fact that the seaman has been captured by an enemy.

From June 26, 1917, to July 10, 1919, this section has issued 6,150 policies, covering 192,894 lives. Inasmuch, however, as a man might be insured several times according to the number of voyages he took, this figure does not represent that number of seamen; the actual number of seamen insured would be considerably less. The total net amount of insurance issued in this section is $322,429,408.54, and the net premiums received amount to $842,348.17, the total acknowledged losses amounting to $302,967.81. We have also claims amounting to $7,110 which we have not adjusted, but upon which we are awaiting proof before taking final action. These, together with our operating expenses of $66,128.70 and nnearned premiums amounting to $440.60, leave a net balance of profits from this section of $465,701.06, and I herewith append as Exhibit C a condensed statement of this section. An examination of this statement will show that while our rates on schooners and auxiliaries (we designate schooners as sailers in this statement) were very much higher than that applicable to steamers, all of our losses have been on steamers.

Exhibit C–1 is an analysis of the admitted and determined losses in the sum of $302,967.81, and shows the number of claims under each vessel named in the list, these claims being divided into death, detention, and injury, and further showing the number of claims upon which payment has been completed and the number of claims upon which payment is being made under a system of install-

ments. The column headed "Pending claims" shows those awaiting either definite proof as to beneficiaries or more formal papers to establish the fact that the person making the claim is the person legally entitled to receive the money involved.

We have no claims, in either this section or the marine section pending upon which we could make payment at the present time, all pending claims being held for more specific evidence. Page 2 of Exhibit C–1 details a list of rejected claims, and the third column shows the reason why rejected. Legislation has been prepared and is being considered which, if passed, will make it possible for us to reconsider these rejected cases, and in most of these instances make payment, as they were rejected not on account of misconduct or negligence on the part of the injured or deceased person, but because the circumstances resulting in death did not come within the provisions of our policy contract, and the proposed legislation will so modify the contract that these payments may possibly be made. Such obligation as the bureau has to make payment of these claims is not legal, but is possibly moral, and it is certainly an act of mercy and justice, as the dependents in most of these cases are in very poor circumstances.

The act creating this bureau appropriated $5,000,000 for the operation of the marine section. Subsequently this appropriation was increased to $50,000,000, and was to apply to both the marine and seamen's sections of the Marine and Seamen's Division, and this fund and all premiums received were appropriated as a permanent fund out of which expenses, losses, and refunds arising out of the operation of this division should be paid. As a matter of fact the losses in both sections of this division have been paid out of the $50,000,000 appropriation, but from a bookkeeping standpoint the underwriting profit of this division is 17,100,535.08, leaving the appropriation of $50,000,000 intact.

The rates for both the marine and seamen's sections have been made by an advisory board, which has for the greater part of the time consisted of Hendon Chubb and William N. Davey, of New York, and William R. Hedge, of Boston, all prominent insurance underwriters. The rates which they suggested, while not obligatory as to acceptance by the bureau, have been in all cases approved by the Secretary of the Treasury. I append herewith as Exhibit D a statement of the functions and organization of this division, and attached to this exhibit there is a schedule of rates which were used just prior to and following the signing of the armistice.

Respectfully submitted.

EDWARD M. PETERS,
Acting Commissioner Marine and Seamen's Division.

EXHIBIT A.

Statement of marine claims, as of July 10, 1919.

[Bureau of War Risk Insurance, Marine and Seamen's Division.]

Vessel.	Date of loss.	Amount of insurance.				Settled claims.		Salvage and deductions.	Outstanding claims.			
		Hull.	Cargo.	Freight.	Total.	No.	Amount.		Pending.		Not presented.	
									No.	Amount.	No.	Amount.
Wm. P. Frye	Jan. 28, 1915	$11,550.00			$11,550.00	2	$11,550.00					
Evelyn	Feb. 19, 1915	100,000.00	$301,000.00		401,000.00	2	341,961.57	$59,038.43				
Carib	Feb. 22, 1915	22,253.00	235,850.00		258,103.00	2	258,085.56	17.44				
Segurance	Mar. 31, 1915		65,480.00		65,480.00	2	235.73					
Greenbrier	Apr. 2, 1915	50,000.00			50,000.00	1	50,000.00					
Navajo	do		413,000.00		413,000.00	2	58,368.34					
Carolyn	Apr. 29, 1915		120,000.00		120,000.00	1	62,595.03					
Portland	June 14, 1915 / July 28, 1915	175,000.00			175,000.00				2	[1] $24,000.00		
Llama	Oct. 31, 1915	115,000.00		$45,000.00	160,000.00				2	[2] 160,000.00		
Borinquen	Jan. —, 1917	477,500.00			477,500.00				1	[1] 4,000.00		
Illinois	Mar. 18, 1917	250,000.00			250,000.00	1	250,000.00					
Healdton	Mar. 21, 1917	450,000.00		49,000.00	499,000.00	2	498.888.82	111.18				
Missourian	Apr. 4, 1917	1,000,000.00			1,000,000.00	1	999,777.58	222.42				
Edwin R. Hunt	Apr. 7, 1917	50,000.00			50,000.00	1	49,776.67	223.33				
New York	Apr. 9, 1917	850,000.00	349,425.00		1,199,425.00	3	[3] 18,691.64		2	25,250.00	4	[1] $510,425.00
Percy Birdsall	Apr. 22, 1917	25,000.00			25,000.00	1	25,000.00					
Vacuum	Apr. 28, 1917	1,000,000.00			1,000,000.00	1	1,000,000.00					
Rockingham	May 1 1917	800,000.00	493,758.00		1,293,758.00	16	1,247,689.37	568.63	1	45,500.00		
Hilonian	May 16, 1917	275,000.00	414,049.53		689,049.53	76	675,219.05	280.48	4	13,195.00	1	355.00
Harwood Palmer	May 23, 1917		66,500.00		66,500.00	2	66,500.00					
Magnus Manson	May 25, 1917	75,000.00	93,960.00		168,960.00	2	168,960.00					
Dirigo	May 31, 1917	175,000.00	108,300.00		283,300.00	5	283,243.00	57.00				
St. Louis	do	525,000.00			525,000.00						1	[1] 10,000.00
Norlina	June 4, 1917	750,000.00	2,504,935.00		3,254,935.00	1	[4] 6,400.45					
Petrolite	June 10, 1917	475,000.00			475,000.00	1	475,000.00					
Moreni	June 12, 1917	775,000.00	578,700.00	135,000.00	1,488,700.00	3	1,488,700.00					
Anna R. Heidritter	June 13, 1917	24,000.00			24,000.00						1	[1] 10,000.00
John D. Archbold	June 16, 1917	2,200,000.00			2,200,000.00	1	2,200,000.00					
A. B. Sherman	June 26, 1917	18,000.00			18,000.00	1	[5] 16,930.21					
Orleans	July 3, 1917	475,000.00	715,032.00		1,190,032.00	43	1,188,704.46	1,327.54				

[1] Estimated. [2] Liability denied. [3] $910.34 surveyors' fees; particular average. [4] $100 surveyors' fees. [5] $1,071 salvaging fees.

Statement of marine claims, as of July 10, 1919—Continued.

Vessel.	Date of loss.	Amount of insurance.				Settled claims.		Salvage and deductions.	Outstanding claims.			
		Hull.	Cargo.	Freight.	Total.	No.	Amount.		Pending.		Not presented.	
									No.	Amount.	No.	Amount.
Navajo	July 5,1917	$575,000.00	$1,512.987.00		$2,087,987.00	2	$922.67					
Kansan	July 10,1917		697,014.00		697,014.00	26	696,949.17	$64.83				
Hildegard	do	28,000.00			28,000.00	1	28,000.00					
Grace	July 12,1917	450,000.00	623,260.00		1,073,260.00	50	1,072,299.85	550.15			1	$410.00
Campana	Aug. 6,1917	1,150,000.00			1,150,000.00	1	1,149,563.00	437.00				
Christiane	Aug. 7,1917	30,000.00			30,000.00	1	30,000.00					
Wm. H. Clifford	Sept. 8,1917	50,000.00			50,000.00	1	50,000.00					
Wilmore	Sept. 12,1917	1,375,000.00			1,375,000.00	1	1,375,000.00					
Platuria	Sept. 15,1917	565,000.00			565,000.00	1	565,000.00					
Lizzie E. Dennison	Sept. 28,1917		89,562.00		89,562.00	4	[1] 61,218.25					
Lewis Luckenbach	Oct. 11,1917	900,000.00	1,424,031.61		2,324,031.61	54	2,299,706.27	8,119.34	2	$8,935.00	1	7,271.00
J. L. Luckenbach	Oct. 19,1917	640,000.00	1,938,043.00		2,578,043.00		[2] 75.00		1	[3] 20,000.00		
D. N. Luckenbach	Oct. 27,1917	220,000.00	1,177,712.00		1,397,712.00	20	[4] 1,374,661.05	15,560.95			1	7,500.00
Rochester	Nov. 2,1917		[5] 4,950.00		84,950.00	16	2,052.95	147.05			19	2,750.00
Schuylkill	Nov. 21,1917	600,000.00	1,703,536.00		2,303,536.00	159	2,217,701.58	27,674.42	5	58,160.00		
St. Charles	Dec. 6,1917	175,000.00			175,000.00				1	[3][11]90,000.00		
Suruga	Dec. 30,1917	785,000.00			785,000.00	1	[6] 150,867.60		1	[3]250,000.00		
Alamance	Feb. 5,1918		1,224,777.00		1,224,777.00	15	[7] 1,213,975.00	2,983.27	1	8,000.00		
Jason	Mar. 4,1918	220,000.00	2,041,311.00		2,261,311.00		[8] 20.00				1	[3] 10,000.00
Chincha	Mar., 1918	1,675,000.00	1,480,556.00		3,155,556.00		[2] 75.00				1	[3] 50,000.00
Argonaut	June 5,1918	516,500.00	3,950.836.00		4,467,336.00	87	4,454,095.15	13,240.85				
Robert and Richard	July 22,1918	12,000.00			12,000.00	1	11,950.00	50.00				
Muriel	Aug. 3,1918	12,000.00			12,000.00	1	11,950.00	50.00				
Cruiser	do	3,000.00			3,000.00						1	3,000.00
Stanley M. Seaman	Aug. 5,1918	120,000.00			120,000.00	1	120,000.00					
Progress	Aug. 10,1918	6,000.00			6,000.00	1	5,993.00	7.00				
William H. Starbuck	do	3,200.00			3,200.00	1	3,200.00					
Dorothy B. Barrett	Aug. 14,1918	75,000.00			75,000.00	1	74,903.57	96.43				
Madrugada	Aug. 15,1918		75,000.00		75,000.00				1	75,000.00		
C. A. Canfield	Aug. 17,1918	1,218,750.00			1,218,750.00		[9] 250.00				1	50,000.00
A. Piatt Andrew	Aug. 20,1918		[10] 3,600.00		3,600.00	25	3,600.00					

Rush	Aug. 26, 1918	31,000.00	.....	.....	31,000.00	1	30,938.00	62.00	.....	.....	.....	.....
Kingfisher	Sept. 20, 1918	50,000.00	.....	.....	50,000.00	1	49,800.00	200.00	.....	.....	.....	.....
Total	.....	22,628,735.00	24,407,165.14	$229,000.00	47,264,918.14	646	28,497,044.59	131,089.74	24	782,040.00	33	661,711.00

Claims settled (646)	$28,497,044.59
Claims pending (24)	782,040.00
Claims not presented (33)	661,711.00

[1] $756.83 investigating fees.
[2] $75 surveyors' fees. Particular average.
[3] Estimated.
[4] $10 investigating fees.
[5] Personal effects.
[6] $9.10 cost of cables; $858.50 surveyors' fees.
[7] $181.27 investigating fees.
[8] $20 surveyors' fees. Particular average.
[9] $250 surveyors' fees.
[10] Personal effects.
[11] Liability denied.

EXHIBIT B.

Lost, damaged, detained, seized, and restrained.

Vessel.	Hull.						Cargo.				Freight.			
	No.	Paid.	No.	Pending.	No.	Denied.	No.	Paid.	No.	Pending.	No.	Paid.	No.	Denied.
TOTAL LOSS.														
Wm. P. Frye	2	$11,550.00												
Evelyn	1	100,000.00					1	$241,961.57						
Carib	1	22,235.56					1	235,850.00						
Greenbrier	1	50,000.00												
Llama					1	$115,000.00							1	$45,000.00
Illinois	1	250,000.00												
Healdton	1	450,000.00									1	$48,888.82		
Missourian	1	999,777.58												
Edwin R. Hunt	1	49,776.67												
Percy Birdsall	1	25,000.00												
Vacuum	1	1,000,000.00												
Rockingham	1	799,941.60					15	447,747.77	1	$45,500.00				
Hilonian	1	275,000.00					75	400,219.05	5	13,550.00				
Harwood Palmer							2	66,500.00						
Magnus Manson	1	75,000.00					1	93,960.00						
Dirigo	1	175,000.00					4	108,243.00						
Petrolite	1	475,000.00												
Moreni	1	775,000.00					1	578,700.00			1	135,000.00		
John D. Archbold	1	2,200,000.00												
Orleans	1	475,000.00					42	713,704.46						
Kansan							26	696,949.17						
Hildegard	1	28,000.00												
Grace	1	449,978.10					49	622,321.75	1	410.00				
Campana	1	1,149,563.00												
Christiane	1	30,000.00												
Wm. H. Clifford	1	50,000.00												
Wilmore	1	1,375,000.00												
Platuria	1	565,000.00												
Lewis Luckenbach	1	900,000.00					53	1,399,706.27	3	16,206.00				
D. N. Luckenbach	1	219,967.00					19	1,154,694.05	1	7,500.00				
Rochester							16	2,052.95	19	2,750.00				
Schuykill	1	600,000.00					158	1,617,701.58	5	58,160.00				
Alamance							15	1,213,975.00	1	8,000.00				
Argonaut	1	516,500.00					86	3,937,595.15						
Robert & Richard	1	11,950.00												
Muriel	1	11,950.00												

Cruiser			1	$3,000.00										
Stanley M. Seaman	1	120,000.00												
Progress	1	5,993.00												
Wm. H. Starbuck	1	3,200.00												
Dorothy B. Barrett	1	74,903.57												
Madrugada									1	75,000.00				
A. Piatt Andrew							25	3,600.00						
Rush	1	30,938.00												
Kingfisher	1	49,800.00												
Total	38	14,401,024.08	1	3,000.00	1	115,000.00	589	13,535,481.77	37	227,076.00	2	183,888.82	1	45,000.00
DAMAGED.														
New York		910.34	1	400,000.00			3	17,781.30	4	135,675.00				
St. Louis			1	10,000.00										
Norlina	1	6,400.45												
Anna R. Heidritter			1	10,000.00										
A. B. Sherman	1	16,930.21												
Navajo							2	922.67						
J. L. Luckenbach		75.00	1	20,000.00										
St. Charles					1	90,000.00								
Suruga	1	150,867.60	1	250,000.00										
Jason		20.00	1	10,000.00										
Chincha		75.00	1	50,000.00										
C. A. Canfield		250.00	1	50,000.00										
Total	3	175,528.60	8	800,000.00	1	90,000.00	5	18,703.97	4	135,675.00				
DETAINED, SEIZED, AND RESTRAINED.														
Seguranca							2	235.73						
Navajo							2	58,368.34						
Carolyn							1	62,595.03						
Portland,			2	24,000.00										
Borinquen			1	4,000.00										
Lizzie E. Dennison							4	61,218.25						
Total			3	28,000.00			9	182,417.35						

EXHIBIT C.

SEAMEN'S SECTION.

Your attention is respectfully invited to the following report showing the condition of the seamen's section of the Bureau of War Risk Insurance from June 26, 1917, to and including July 10, 1919:

	Steamers.	Sailers and auxiliaries.	Total.
Number of policies	4,711	1,439	6,150
Number of individuals	182,377	10,517	192,894
Earnings of complements	18,571,076.71	1,084,082.86	19,655,159.57
Gross amount insurance	326,164,898.42	18,021,869.32	344,186,767.74
Canceled insurance	21,308,092.32	449,266.88	21,757,359.20
Net amount of insurance	302,856,806.10	17,572,602.44	322,429,408.54
Gross premiums	778,217.35	154,802.01	933,019.36
Return premiums	74,223.20	16,447.99	90,671.19
Total net premiums	703,994.15	138,354.02	842,348.17
Insurance at risk	.....	95,200.00	95,200.00
Unearned premiums	.....	440.60	440.60
Losses:			
Death	288,756.00	.....	288,746.00
Detention (estimated)	7,041.48	.....	7,041.48
Injuries (estimated)	7,180.33	.....	7,180.33
Unlocated beneficiaries	23,400.00	.....	23,400.00
Beneficiaries in enemy territory	7,200.00	.....	7,200.00
Total paid	124,724.78	.....	124,724.78
Installments coming due on adjusted claims	41,323.03	.....	41,232.03
Unadjusted claims	136,920.00	.....	136,920.00
Total determined losses	302,967.81	.....	302,967.81
Total claims awaiting proof	7,110.00	.....	7,110.00

Financial statement.

Total net premiums	$842,348.17
Total determined losses	302,967.81
Expenses (estimated)	66,128.70
Balance	473,251.66
Balance	473,251.66
Unearned premiums	440.60
Claims awaiting proof	7,110.00
Net balance	465,701.06

Respectfully submitted.

EDWARD M. PETERS,
Acting Commissioner Marine and Seamen's Division.

EXHIBIT C–1.—*Loss report, seamen's section.*

Vessel.	Claims presented.						Total.		Adjusted claims.					Pending claims.						Total acknowledged claims.	
	Death.		Detention.		Injury.				Payment complete.		Installment cases.			In process of adjustment.		Beneficiary unlocated.		Beneficiary in enemy territory.			
	No.	Amount.	No.	Amount	No.	Amount.	No.	Amount.	No.	Amount.	No.	Amount paid.	Due.	No.	Amount.	No.	Amount.	No.[1]	Amount	No.	Amount.
		Dollars.		*Dollars.*		*Dollars.*		*Dollars.*		*Dollars.*		*Dollars.*	*Dollars.*		*Dollars.*		*Dollars.*		*Dollars.*		*Dollars.*
Kansan	4	7,200.00	....	.....	....	.....	4	7,200.00	2	3,000.00	2	3,250.00	950.00	....	.....	....	.....	....	.....	4	7,200.00
Motano	16	25,230.00	....	.....	....	.....	16	25,230.00	6	9,480.00	7	9,656.25	1,593.75	....	.....	1	1,500.00	2	3,000.00	16	25,230.00
L. Luckenbach	8	17,460.00	....	.....	....	.....	8	17,460.00	....	.....	4	7,560.00	2,700.00	3	4,500.00	....	.....	1	2,700.00	8	17,460.00
Platuria	8	14,670.00	....	.....	1	1,500.00	9	16,170.00	1	4,050.00	4	3,997.50	2,122.50	4	6,000.00	....	.....	....	.....	9	16,170.00
D. N. Luckenbach	5	9,300.00	....	.....	....	.....	5	9,300.00	1	2,520.00	2	2,805.00	975.00	2	3,000.00	....	.....	....	.....	5	9,300.00
Rochester	17	31,820.00	....	.....	....	.....	17	31,820.00	4	9,500.00	3	3,345.00	2,175.00	6	9,000.00	3	6,300.00	1	1,500.00	17	31,820.00
St. Helens	24	36,471.00	....	.....	....	.....	24	36,471.00	11	16,971.00	4	3,500.00	2,500.00	6	9,000.00	3	4,500.00	....	.....	24	36,471.00
Actaeon	1	1,500.00	....	.....	....	.....	1	1,500.00	....	.....	....	.....	.....	....	.....	1	1,500.00	....	.....	1	1,500.00
Owasco	2	3,000.00	....	.....	1	972.00	3	3,972.00	1	1,500.00	1	526.50	445.50	1	1,500.00	....	.....	....	.....	3	3,972.00
Alamance	5	7,500.00	....	.....	....	.....	5	7,500.00	1	1,500.00	....	.....	.....	3	4,500.00	1	1,500.00	....	.....	5	7,500.00
Chincha	3	4,500.00	....	.....	....	.....	3	4,500.00	....	.....	....	.....	.....	3	4,500.00	....	.....	....	.....	3	4,500.00
Atlantic Sun	2	4,020.00	1	2,083.34	1	1,500.00	4	7,603.34	1	2,083.34	2	1,485.00	1,515.00	1	2,520.00	....	.....	....	.....	4	7,603.34
Tyler	6	9,780.00	....	.....	....	.....	6	9,780.00	2	3,000.00	2	1,922.50	1,857.50	2	3,000.00	....	.....	....	.....	6	9,780.00
Campana	....	.....	1	4,050.00	....	.....	1	4,050.00	1	4,050.00	....	.....	.....	....	.....	....	.....	....	.....	1	4,050.00
Fred. R. Kellogg	5	8,475.00	....	.....	....	.....	5	8,475.00	1	1,500.00	1	390.63	1,484.37	1	1,500.00	2	3,600.00	....	.....	5	8,475.00
O. B. Jennings	1	1,500.00	1	908.14	....	.....	2	2,408.14	2	2,408.14	....	.....	.....	....	.....	....	.....	....	.....	2	2,408.14
Florence H	32	53,820.00	....	.....	2	2,250.00	34	56,070.00	3	4,500.00	11	7,756.25	13,513.75	20	30,300.00	....	.....	....	.....	34	56,070.00
Freida	1	1,500.00	....	.....	....	.....	1	1,500.00	....	.....	1	562.50	937.50	....	.....	....	.....	....	.....	1	1,500.00
Albert Watts	1	1,500.00	....	.....	....	.....	1	1,500.00	....	.....	....	.....	.....	....	.....	1	1,500.00	....	.....	1	1,500.00
San Saba	30	49,500.00	....	.....	....	.....	30	49,500.00	5	8,175.00	5	2,771.84	8,553.16	18	27,000.00	2	3,000.00	....	.....	30	49,500.00
Lansford (barge)	....	.....	....	.....	1	958.33	1	958.33	1	958.53	....	.....	.....	....	.....	....	.....	....	.....	1	958.33
Total	171	288,746.00	3	7,041.48	6	7,180.33	180	302,967.81	43	75,195.81	49	49,528.97	41,323.03	70	106,320.00	14	23,400.00	4	7,200.00	180	302,967.81
NONWAR RISK.																					
Winifred	1	1,500.00	....	.....	....	.....	1	1,500.00	....	.....	....	.....	.....	....	.....	....	.....	....	.....	....	.....
Ida	1	1,500.00	....	.....	....	.....	1	1,500.00	....	.....	....	.....	.....	....	.....	....	.....	....	.....	....	.....
Heredia	1	1,500.00	....	.....	....	.....	1	1,500.00	....	.....	....	.....	.....	....	.....	....	.....	....	.....	....	.....
Lake Lesa	1	2,175.00	....	.....	....	.....	1	2,175.00	....	.....	....	.....	.....	....	.....	....	.....	....	.....	....	.....
Lake City	5	8,550.00	....	.....	....	.....	5	8,550.00	....	.....	....	.....	.....	....	.....	....	.....	....	.....	....	.....
Howard	1	1,800.00	....	.....	....	.....	1	1,800.00	....	.....	....	.....	.....	....	.....	....	.....	....	.....	....	.....

[1] All beneficiaries in foreign countries except 1 on the San Saba.

EXHIBIT C–1.—*Loss report, seamen's section*—Continued.

Vessel.	Claims presented.					Total.		Adjusted claims.					Pending claims.						Total acknowledged claims.	
	Death.		Detention.	Injury.				Payment complete.		Installment cases.			In process of adjustment.		Beneficiary unlocated.		Beneficiary in enemy territory.			
	No.	Amount.	No. Amount	No.	Amount.	No.	Amount.	No.	Amount.	No.	Amount paid.	Due.	No.	Amount.	No.	Amount.	No.	Amount	No.	Amount.
Lake Land	1	1,500.00				1	1,500.00													
Carib	1	2,760.00				1	2,760.00													
Lassell	1	1,500.00				1	1,500.00													
Texan	1	1,500.00				1	1,500.00													
Western Cross	1	1,500.00				1	1,500.00													
Almirante	3	4,500.00				1	4,500.00													
Orion	1	1,500.00				3	1,500.00													
DISALLOWED CLAIMS.																				
Owasco				1	1,500.00	1	1,500.00													
Rochester				2	3,390.00	2	3,390.00													
J. L. Luckenbach				2	4,140.00	2	4,140.00													
Atlantic Sun				2	6,300.00	2	6,300.00													
Fred. R. Kellogg				1	1,500.00	1	1,500.00													
Alamance				1	1,500.00	1	1,500.00													
QUESTIONABLE LOSSES.																				
O. B. Jennings	1	1,500.00				1	1,500.00													
Perth Amboy				1	1,500.00	1	1,500.00													
O. B Jennings				1	2,610.00	1	2,610.00													
F. Q. Barstow	1	1,500.00				1	1,500.00													
Total	21	34,785.00		11	22,440.00	32	57,225.00													
Grand total	192	323,531.00	37,041.48	17	29,620.33	212	360,192.81	43	75,195.81	49	49,528.97	41,323.03	70	106,320.00	14	23,400.00	4	7,200.00	180	302,967.81

Total nonwar risk cases (19)	$31,785.00
Total disallowed claims (9)	18,230.00
Total questionable losses (4)	7,110.00

Exhibit D.

Marine and Seamen's Division.

MARINE SECTION.

A statement of the functions and organization of this division is largely a matter of history, as the division is in process of liquidation, and the following, although written in the present tense, is more correctly descriptive of the past than of present conditions.

The act creating the Bureau of War Risk Insurance, signed September 2, 1914, contemplated only the marine section, which is therefore the oldest section in the bureau.

This section commenced business in one room in the basement of the Treasury Building with a total office force of five, including executives. It has never issued marine insurance contracts, which form of insurance is concerned chiefly with losses occasioned by "perils of the sea," barratry, thefts, jettison, etc. Its function has been to issue war-risk insurance; that is, to indemnify vessel and cargo owners against losses occasioned as the result of war conditions or actual hostile action.

The original intent was not to eliminate private-company insurance but rather to stabilize rates and provide a market for such excess insurance as could not be procured in the open market. In practice it soon resolved itself into a condition where those procuring Government insurance at all quickly came to depend entirely or primarily upon Government insurance.

As first authorized the insurance was limited to American vessels, their freight and cargoes. When vessels were transferred to the American flag from a foreign flag the following clause was incorporated in the policy:

"Warranted that the vessel is of American ownership and free from all claims for loss, damage, or expense consequent upon seizure and/or detention owing to or on account of any foreign ownership, entire or partial, of the vessel, or the corporation owning her, either before or after the change of flag."

On July 11, 1918, a bill was passed in Congress amending the Bureau of War Risk Insurance act, so that when it appeared to the Secretary of the Treasury that vessels of foreign friendly flags or their masters, officers, or crews, or shippers or importers in such vessels, were unable to secure adequate war-risk insurance on reasonable terms, the Bureau of War Risk Insurance, with the approval of the Secretary, could provide such insurance when the vessels were chartered or operated by the United States Shipping Board or its agent, or chartered by any person a citizen of the United States; and the cargoes to be shipped in such vessels of foreign friendly flags whether or not they were so chartered. Such insurance was authorized only when the United States Shipping Board or its agent operated the vessel or the charterers were, by the terms of the charter party or contract with the vessel owners, required to assume the war risk or provide insurance protecting vessel owners against war risk during the term of the charter or hire of the vessel.

On policies for such insurance the following clause was incorporated:

"Warranted that the United States Shipping Board is released of and free from any and all liability for any loss or damage during the voyage described herein, which may occur and be due to the operation of a war risk, as defined in United States Shipping Board requisition charter."

Departments in the marine section are established for the following purposes:

1. Answering requests for quotations.
2. Checking applications.
3. Preparing policies and letters of transmittal.
4. Checking policies.
5. Handling and recording remittances and refunds.
6. Filing.
7. Keeping policy register and vessel record.
8. Adjustment of losses.

Requests for rate quotations usually come in by telegraph and are answered in similar manner. The quotation is made on a definite assured, vessel and/or cargo, voyage and amount, and must be accepted, and written application accompanied by certified check filed within 48 hours. Check and application may be filed with a local customs official, in which case the said official must telegraph to us information to that effect within the time limit. This quotation

holds good for a period of 15 days. If full particulars upon which the policy can be written are not submitted within that time, extension of binder must be applied for for a succeeding 15 days, and this extension will be granted subject to change in rate, and additional premium paid if required.

Hull insurance is written with an agreed upon hull value stated in the policy contract. If the bureau refuses to issue a policy for the full amount of this value the resultant deficit only could be procured from private companies.

Freight insurance was determined by the actual freight receipts.

The total amount of cargo insurance which we permit, whether we carry all or part of this insurance, is limited to the amount of marine insurance carried, and the carrying of marine insurance is a prerequisite to our issuing war-risk insurance in any form in the marine section, and until June, 1917, we made no other limit as to the amount of cargo insurance on trans-Atlantic war-zone shipments. At that time we made a further limitation as to the total amount of cargo insurance to be carried, in the following terms:

On merchandise to ports in Europe and Mediterranean ports in Africa.—The maximum amount of insurance against war risks shall not exceed the amount of the invoice (including freight, insurance premiums, and other charges when prepaid and included in the invoice) plus 10 per cent; and on merchandise shipped on consignment shall not exceed market value at port of shipment at time application for insurance is made to the Bureau of War Risk, plus freight, insurance premiums, and other charges when prepaid, plus 10 per cent.

We have made no limit as to the amount of cargo insurance which may be carried (other than the marine insurance limit) on shipments outside of the above zone; so that it has been possible, if a shipper was willing to pay the premium and could procure the marine insurance, to insure for any amount he desired.

In the early days of the bureau we limited our liability on any one vessel to specified amounts; but latterly we have written all the cargo insurance applied for regardless of its amount, the class of vessel, or the voyage involved.

Since April, 1917, we have insured no sailing vessels or cargoes entering the so-called war zones. Our rate for auxiliary vessels has been one and one-half times our rate for steamers, and our sailing-vessel rate has been twice the steamer rate, except when the voyage was to South Africa or the Far East; then the sailing-vessel rate was two and one-half times the steamer rate. Rates in effect just prior to and following the armistice are appended as part of this report.

The work of the loss department of the marine section has been the most detailed and technical in its requirements of any department in the Marine and Seamen's Division. Claims have been settled and are in process of adjustment for hull, freight, cargo, personal effects, and crew's outfits, for all of which we require definite proofs of loss and interest. Adjustment of all except cargo claims is a comparatively simple process, and it is with cargo claims we have greatest difficulty. The bureau must make settlement with the actual party at interest or must have an order in proper form from said pary authorizing and directing payment to a third party, and we must have in our possession all documents proving loss and interest, or in the event of loss of certain papers or lack of indorsement of bills of lading or policies we require indemnities or surety bonds. The Consular Bureau of the State Department is of great assistance in connection with matters to be taken up through United States consuls. Up to the time of consolidation of the two sections the adjustment of losses was carried on independently of former section chiefs.

The work of this section has been under the jurisdiction of an advisory board consisting of Hendon Chubb and William N. Davey, both of New York City, and William R. Hedge, of Boston. This board has prescribed the policy forms and contracts, authorized rates, and reviewed and passed upon the work of the loss department.

The first policy issued by the marine section was upon the Standard Oil vessel *John D. Archbold*, in the sum of $150,000, with an agreed-upon value of $770,000. This vessel was subsequently torpedoed June 16, 1917, and at that time was insured by the bureau under policy No. 4287 in the sum of $2,200,000 with an agreed-upon value of $2,200,000, and we paid a total loss under this contract in the sum of $2,200,000 under date of August 2, 1917.

Rates for insurance by this section were withdrawn by the Secretary of the Treasury on January 4, 1919, and we are now engaged in writing up orders pending prior to that date and revising amounts and adjusting premiums on

existing policies. Our principal outstanding and pending order is for the United States Railroad Administration. We insured its vessels and cargoes engaged in the coastwise trade for the period from October 16, 1918, to November 15, 1918, inclusive. The issuance of the policies is held up pendng the determination of the exact and proper amount of insurance. In this case we did not follow the usual rule of requiring deposit of certified check, as it is another Government department. The amount of insurance involved in this order will approximate $100,000,000 or more, and the premium will amount to several hundreds of thousands of dollars, which will be all profit, as no losses were incurred.

We have the following outstanding losses: Seventy-five claims at an estimated amount of $1,723,423.36.

Over $1,000,000 of this sum represents estimated damage to hulls, claims for which have not yet been presented. A very few cargo claims have not been presented, and those pending are held for further proof of interest.

The summary of the business of the marine section to date, is as follows:

Policies issued Sept. 2, 1914, to Feb. 28, 1919	27,072
Total amount insured	$1,988,840,305.00
Premium on above	46,492,800.32
Losses paid up to and including Feb. 28, 1919	28,138,015.59
Losses pending, including outstanding, estimated	1,723,423.36
	29,861,438.95
Expenses estimated up to and including Feb. 28, 1919	171,432.60
Estimated profits	16,459,928.77

SEAMEN'S SECTION.

The act authorizing the Bureau of War Risk Insurance was amended on June 26, 1917, to insure the masters, officers, and crews of American merchant vessels, to whose complements it was then limited, and the seamen's section of the Marine and Seamen's Division was created as of that date. It issued its first policy to the Garland Steamship Corporation on July 3, 1917.

Note that we insure the complements of merchant vessels and not public vessels. It has been ruled that vessels in the service of the War or Navy Departments are public vessels. The complements of such public vessels, when enrolled, enlisted, or drafted into active service in the military or naval forces of the United States, are under the jurisdiction of the Military and Naval Division of the Bureau.

The civilian complements of such public vessels are entitled to the benefits of the act entitled "An act to provide compensation for employees of the United States suffering injuries while in the performance of their duties, and for other purposes," approved September 7, 1916, which is under the jurisdiction of the United States Employee's Compensation Commission, Union Trust Co. Building, Fifteenth and H Streets NW.

The complements of vessels requisitioned by the United States Shipping Board, chartered to the United States Emergency Fleet Corporation, are insured by this section when traversing the prescribed war zone, and when not of the Army and Navy personnel. When such requisitioned ships are chartered to the Army or Navy they automatically become "public ships," and the civilian complements, if any, come under the juridiction of the United States Employee's Compensation Commission.

The complements of vessels chartered by the Shipping Board are insured by the seamen's section when the vessel is returned to the owner for operation under "Time" or "Bare boat" form of charter, provided the vessel does not lose its status as a merchant vessel or when under a "Time charter" public Government form the vessel is chartered to a foreign government but operated by the Emergency Fleet Corporation.

The seamen's section does not insure the property or personal effects of the complements. (Personal effects are covered by the marine section when specifically insured.) We insure against loss by death or permanent disability when caused by injury from act of war (not sickness) and for loss of wages, actual or theoretical, resulting from detention by the enemy. We also pay specified percentage of the "principal sum" for loss of hands, feet, arms, legs, sight, or

hearing due to act of war. The principal sum is, and must in every case be, twelve times the monthly rate of compensation, limited by a minimum of $1,500 and a maximum of $5,000. The insurance is mandatory. The premium is not paid by the complement, but by the person or corporation responsible for the complement.

The insurance in event of death is payable to the estate of the deceased for distribution to his family, and is free from debt.

The payments for injury are made to the injured person. The insured person may designate some dependent to whom payment is to be made in the event of his detention. The right of the designated beneficiary is not vested and may be revoked or none need be appointed.

The act provides this form of insurance for complements of American vessels engaged in such trades as may be from time to time prescribed by the Secretary of the Treasury, and on July 11, 1918, was enlarged in its scope to include insurance on complements of vessels of foreign friendly flags. Under date of June 28, 1918, a circular was issued by the Secretary of the Treasury authorizing insurance on complements of vessels of American registry (except in the case of fishing vessels while on trips for the purpose of catching fish) while proceeding—

"From United States ports situated on the Atlantic or Gulf of Mexico coasts to foreign ports and vice versa;

"From United States ports situated on the Atlantic or Gulf of Mexico coasts to other United States ports where the voyage includes not less than one hundred miles of ocean navigation and vice versa."

The mandatory feature of the act was repealed on December 20, 1918, and all rates withdrawn by order of the Secretary of the Treasury on January 4, 1919.

The force of the section is divided into departments for the following purposes:

1. Receiving and checking reports from collectors of customs and consuls for the purpose of determining whether complements of all vessels are insured;
2. Receiving, checking, recording, and acknowledging provisional applications;
3. Receiving, recording, and checking final and supplementary applications;
4. Repairing and issuing policies and letters of transmittal;
5. Checking policies and letters of transmittal;
6. Handling and recording remittances and refunds;
7. Filing;
8. Keeping policy register and record of seamen's policies;
9. Loss adjusting.

The provisional application is essentially a notice that the insurance is applied for. The policy is written up upon the receipt of the final application which lists the complement and wages, and is accompanied by check for premium. When subsequent chances in the complement occur a supplementary application is required.

Customs officials and American consuls cooperate with this section, filing weekly reports of all vessels arriving at or departing from their ports. If the voyage has not been insured the owners or operators of the vessel are communicated with and application procured. The act provides a penalty of $1,000 for failure to apply for insurance, which penalty is waived if reasonable explanation for failure is submitted.

Details of losses are secured from the owners or vessel operators, the deceased's relations, the State Department, Navy Department, Shipping Board, and other branches of the Government, and when the necessary data has been secured it is submitted in a concise form of report to the claim advisory board of this section, which approves all claims before they are paid. These payments are made in lump sum or 24 equal monthly installments, payments without interest, at the option of the claim advisory board.

The section at the present time is concerned with the closing up of pending provisional applications, the final applications of which are delayed through inability on the part of the insurers to furnish details as to the complements. We are also investigating the condition surrounding the failure to apply for insurance on various voyages, and we occasionally receive applications for voyages just completed which commenced before the withdrawing of our rates. Despite the fact that no new voyages are being insured we wrote more policies

during February, 1919, than during any month of the existence of this section from June, 1917, to July, 1918. We have on hand unadjusted claims in this section amounting to $160,365. The settling of these claims, the beneficiaries of which are for the most part in foreign countries, involve many difficulties and are engaging the attention of the legal department of the bureau.

Since the creation of this section to February 28, 1919, this section wrote insurance covering 188,373 lives in the aggregate net sum of $315,120.14. The total net premium amounted to $834,572.75, and the total losses and expenses, and unearned premiums are estimated at $403,431.45, leaving an estimated net profit of $431,141.30.

An appropriation of $50,000,000 was made by Congress to pay the losses of this division. The losses of the division are charged to appropriation "Losses on war-risk insurance of American vessels, their cargoes, etc." Nevertheless, the whole division has been self-supporting and has turned in a total profit to the Treasury of $16,891,070.07.

Respectfully submitted.

EDWARD M. PETERS,
Acting Head Marine and Seamen's Division.

FEBRUARY 28, 1919.

NOTICE NO. 35.

[American steamers and their approved cargoes only (excepting specie, bullion, jewelry, and precious stones) from any port in the United States to any port in the world and vice versa.]

These rates effective as to all applications received on and after October 1, 1918, but subject to change without notice.

Voyage.	Between ports on Atlantic coast, United States, and—	Per cent.
1	Atlantic United States ports	⅜
2	Gulf United States ports	⅜
3	Halifax, St. John, and St. Lawrence ports	½
4	Bermuda, Porto Rico, Cuba, San Domingo, United States, Virgin Islands	½
5	Other West Indian ports	½
6	Mexican Gulf ports	½
7	Panama	½
8	North coast of South America (not south of Trinidad)	½
9	South America between Trinidad and Cape St. Roque	¾
10	East coast South America below Cape St. Roque	¾
11	Via canal:	
	(*a*) Australasia	⅞
	(*b*) India or Africa	⅞
	(*c*) West coast South America	⅝
12	Via Magellan: West coast South America	⅝
13	Via Cape of Good Hope:	
	(*a*) South and East Africa	1¼
	(*b*) Far east	1¼
14	West and south coast South Africa	1¼
15	United Kingdom	2
16	France (Atlantic)	2
17	Italy, North Africa, Alexandria	3
18	French Mediterranean	3
19	Greece	3
20	Pacific United States ports, via canal	¾
	From United States gulf ports, same as from United States Atlantic ports, except—	
21	Cuba	⅜
22	Other West Indian ports	⅜
23	Mexico	⅜
24	Panama	⅜
25	North coast of South America (not south of Trinidad)	⅜
26	South America between Trinidad and Cape St. Roque	½
27	East coast South America below Cape St. Roque	½
28	Via canal:	
	(*a*) Australasia	¾
	(*b*) India or Africa	¾
	(*c*) West coast South America	¾

Notice No. 36.

CHANGE OF STEAMER TIME RATES.

The following rates will be effective as to all applications received on and after October 1, 1918, but subject to change without notice:

For 30-day periods.

	Per cent.
Confined to United States Pacific coast	1/10
Confined to United States Atlantic and Gulf coasts	1/2
Confined to the Western Hemisphere	1
Confined to the Atlantic and Gulf coasts of the United States, ports on the Gulf of Mexico and Caribbean Sea, with privilege of West Indies not beyond Island of Trinidad	3/4
Confined to the Gulf coasts of the United States and Mexico, ports on the Caribbean Sea, with privilege of West Indies not beyond Island of Trinidad	1/2

Notice No. 37.

[American steamers and their approved cargoes only (excepting specie, bullion, jewelry, and precious stones) from any port in the United States to any port in the world, and vice versa.]

These rates effective as to all applications received on and after November 11, 1918, but subject to change without notice.

Voyage.	Between ports on Atlantic coast, United States, and—	Per cent.
1	Atlantic United States ports	1/10
2	Gulf United States ports	1/10
3	Halifax, St. John, and St. Lawrence ports	1/10
4	Bermuda, Porto Rico, Cuba, San Domingo, United States Virgin Islands	1/10
5	Other West Indian ports	1/10
6	Mexican Gulf ports	1/10
7	Panama	1/10
8	North coast South America (not south of Trinidad)	1/1
9	South America between Trinidad and Cape St. Roque	1/10
10	East coast South America below Cape St. Roque	1/10
11	Via canal:	
	(*a*) Australasia	1/5
	(*b*) India or Africa	1/5
	(*c*) West coast South America	1/10
12	Via Magellan: West coast South America	1/5
13	Via Cape of Good Hope:	
	(*a*) South and East Africa	1/5
	(*b*) Far East	1/5
14	West and south coast South Africa	1/5
15	United Kingdom	1/2
16	France (Atlantic)	1/2
17	Italy, North Africa, Alexandria	1/2
18	French Mediterranean	1/2
19	Greece	1/2
20	Pacific United States ports, via canal	1/10
	From United States Gulf ports, same as from United States Atlantic ports, except—	
21	Cuba	1/10
22	Other West Indian ports	1/10
23	Mexico	1/10
24	Panama	1/10
25	North coast of South America (not south of Trinidad)	1/10
26	South America between Trinidad and Cape St. Roque	1/1
27	East coast South America below Cape St. Roque	1/10
28	Via canal:	
	(*a*) Australasia	1/5
	(*b*) India or Africa	1/5
	(*c*) West coast South America	1/10
29		

NOTICE 37a.

American steamers and their approved cargoes only (excepting specie, bullion, jewelry, and precious stones) from any port in the United States to any port in the world, and vice versa.]

These rates effective as to all applications received on and after November 11, 1918, but subject to change without notice.

Voyage.	Between ports on Pacific coast, United States, and—	Per cent.
30	Pacific United States ports	1/10
31	Hawaiian Islands	1/10
32	Pacific coast of Panama	1/10
33	Pacific coasts of Mexico and Central America	1/10
34	West coast South America	1/10
35	China, Japan, Philippines	1/10
36	India and Singapore	1/10
37	Australasia	1/10
38	United Kingdom, via Panama	1/2
39	France (Atlantic) via Panama	1/2
40	Italy, North Africa, Alexandria, French Mediterranean	1/2

NOTICE No. 38.

CHANGE OF STEAMER TIME RATES.

The following rates will be effective as to all applications received on and after November 11, 1918, but subject to change without notice:

For 30-day periods.

	Per cent.
Confined to United States Pacific coast	1/10
Confined to United States Atlantic and Gulf coasts	1/4
Confined to the Western Hemisphere	1/4
Confined to the Atlantic and Gulf coasts of the United States, ports on the Gulf of Mexico and Caribbean Sea, with privilege of West Indies not beyond island of Trinidad	1/4
Confined to the Gulf coasts of the United States and Mexico, ports on the Caribbean Sea, with privilege of West Indies not beyond island of Trinidad	1/4

NOTICE No. 40.

[American steamers and their approved cargoes only (excepting specie, bullion, jewelry, and precious stones) from any port in the United States to any port in the world, and vice versa.]

These rates effective as to all applications received on and after November 27, 1918, but subject to change without notice.

Voyage.	Between ports on Atlantic coast, United States, and—	Per cent.
1	Atlantic United States ports	1/10
2	Gulf United States ports	1/10
3	Halifax, St. John, and St. Lawrence ports	1/10
4	Bermuda, Porto Rico, Cuba, San Domingo, United States Virgin Islands	1/10
5	Other West Indian ports	1/10
6	Mexican Gulf ports	1/10
7	Panama	1/10
8	North coast South America (not south of Trinidad)	1/10
9	South America between Trinidad and Cape St. Roque	1/10
10	East coast South America below Cape St. Roque	1/10
11	Via canal:	
	(*a*) Australia	1/8
	(*b*) India or Africa	1/8
	(*c*) West coast South America	1/10
12	Via Magellan: West coast South America	7/8
13	Via Cape of Good Hope:	
	(*a*) South and East Africa	1/8
	(*b*) Far East	1/8
14	West and south coast South Africa	1/8
15	United Kingdom	1/8
16	France (Atlantic)	1/8
17	Italy, North Africa, Alexandria	1/8
18	French Mediterranean	1/8
19	Greece	1/4
20	Pacific United States ports, via canal	1/10

NOTICE No. 40—Continued.

Voyage.	From United States Gulf ports, same as from United States Atlantic ports, except—	Per cent.
21	Cuba	1/10
22	Other West Indian ports	1/10
23	Mexico	1/10
24	Panama	1/10
25	North coast of South America (not south of Trinidad)	1/10
26	South America between Trinidad and Cape St. Roque	1/10
27	East coast South America below Cape St. Roque	1/10
28	Via canal:	
	(*a*) Australasia	1/8
	(*b*) India or Africa	1/8
	(*c*) West coast South America	1/10
29		

NOTICE 40a.

[American steamers and their approved cargoes only (excepting specie, bullion, jewelry, and precious stones). From any port in the United States to any port in the world and vice versa.]

These rates effective as to all applications received on and after November 27, 1918, but subject to change without notice.

Voyage.	Between ports on Pacific coast, United States, and —	Per cent.
30	Pacific United States ports	1/10
31	Hawaiian Islands	1/10
32	Pacific coast of Panama	1/10
33	Pacific coasts of Mexico and Central America	1/10
34	West coast South America	1/10
35	China, Japan, Philippines	1/10
36	India and Singapore	1/10
37	Australasia	1/10
38	United Kingdom, via Panama	1/8
39	France (Atlantic) via Panama	1/8
40	Italy, North Africa, Alexandria, French Mediterranean	1/8

NOTICE No. 41.

CHANGE OF STEAMER TIME RATES.

The following rates will be effective as to all applications received on and after November 27, 1918, but subject to change without notice:

For 30-day periods.

	Per cent.
Confined to United States Pacific coast	1/10
Confined to United States Atlantic and Gulf coasts	1/8
Confined to the Western Hemisphere	1/8
Confined to the Atlantic and Gulf coasts of the United States, ports on the Gulf of Mexico and Caribbean Sea, with privilege of West Indies not beyond Island of Trinidad	1/8
Confined to the Gulf coasts of the United States and Mexico, ports on the Caribbean Sea, with privilege of West Indies not beyond the Island of Trinidad	1/8

NOTICE No. 42.

FISHING VESSELS (STEAM AND SAIL)—HULLS.

[Rates effective Nov. 27, 1918, but subject to change without notice.]

Schooners, auxiliary schooners, and steamers.—Hulls (ballast included) and outfits, with privilege of extension to home port, if not arrived, as per condition of vessel policy.

(A) Fishing trips out of Atlantic American ports, in Atlantic American, Canadian, and Newfoundland coastwise waters:
Fishing trips out of Gulf ports, in Gulf waters:

	Per cent.
1. For 1 trip not exceeding 2 weeks from date of policy	1/8
2. For 1 trip not exceeding 3 weeks from date of policy	3/20
3. For 1 trip not exceeding 4 weeks from date of policy	3/20
4. For 1 trip not exceeding 8 weeks from date of policy	1/4
5. For 1 trip not exceeding 12 weeks from date of policy	3/8
6. For 1 trip not exceeding 16 weeks from date of policy	1/2
7. For 1 trip not exceeding 20 weeks from date of policy	5/8

(B) Where required, policies may be issued for one, two, or three months, rates of three-twentieths of 1 per cent for one month, one-fourth of 1 per cent for two months, three-eighths of 1 per cent for three months.
Catch decline, value too uncertain.

NOTICE No. 27.

MASTERS, OFFICERS, AND CREWS OF VESSELS FROM ANY PORT IN THE UNITED STATES TO ANY PORT IN THE WORLD, AND VICE VERSA.

These rates are effective on and after November 11, 1918, and are subject to change without notice.

For every $100 of annual remuneration subject to a minimum of $1,500 and maximum of $5,000.

Voyages.	Steamers.	Sailers and auxiliaries.	Tugs and barges, other than schooner barges.
Between ports on Atlantic coast of United States and—			
Atlantic United States ports	0.001	0.002	0.0015
Gulf United States ports	.0015	.0025	.0025
Atlantic Canadian ports, New Brunswick, Nova Scotia, and Newfoundland	.002	.004	.0025
Bermuda, Porto Rico, San Domingo, Cuba, Haiti, and United States Virgin Islands	.002	.004	.0025
Other West Indian ports	.0025	.005	.004
Mexican Gulf ports	.002	.004	.0025
Central American ports on Caribbean Sea	.004	.005	.004
Panama	.0025	.005	.004
North coast of South America (not south of Trinidad)	.005	.01	.0075
South America between Trinidad and Cape St. Roque	.008	.016	.012
East coast South America below St. Roque	.01	.02	.015
Via canal—			
Australasia	.01	.02	.015
India or east Africa	.012	.024	.018
West coast North or South America	.004	.008	.006
Via Magellan—West coast South America	.01	.02	.015
Via Cape of Good Hope—			
South and east Africa	.02	.04	.03
Far East	.025	.05	.0375
West coast Africa, south of Sierra Leone	.025	.05	.0375
West coast Africa, north of Sierra Leone	.03	.06	.045
Mediterranean coast Africa, including Alexandria	.03	.06	.045
United Kingdom	.03	.06	.045
France	.03	.06	.045
Spain, Portugal, and Italy	.03	.06	.045
Azores, Madeira, and Canary Islands	.03	.06	.045
Cape Verde Islands	.03	.06	.045

For every $100 of annual remuneration subject to a minimum of $1,500 and maximum of $5,000—Continued.

Voyages.	Steamers.	Sailers and auxiliaries.	Tugs and barges, other than schooner barges.
From United States Gulf ports, same as from United States Atlantic ports, except—			
Bermuda, Porto Rico, San Domingo, Cuba, Haiti, and United States Virgin Islands	0.0015	0.003	0.0025
Other West Indian ports	.002	.004	.0025
Mexico	.0015	.003	.0025
Central American ports on Caribbean Sea	.0025	.005	.004
Panama	.002	.004	.0025
North coast of South America (not south of Trinidad)	.004	.008	.006
South America between Trinidad and Cape St. Roque	.006	.012	.009
East coast South America below Cape St. Roque	.008	.016	.012
Via canal—			
Australasia	.008	.016	.012
India or east Africa	.01	.02	.015
West coast of North or South America	.003	.006	.004
Between ports on Pacific coast of United States and—			
Pacific United States ports	.001	.002	.0015
Pacific Canadian ports	.0015	.003	.0025
Hawaiian Islands	.0015	.003	.0025
Panama	.0015	.003	.0025
Mexico and Central America	.0015	.003	.0025
West coast South America	.002	.004	.003
Via Canal:			
North coast South America (not south of Trinidad)	.004	.008	.006
South America between Trinidad and Cape St. Roque	.006	.012	.009
East coast South America below Cape St. Roque	.008	.016	.012
China, Japan, Philippines	.004	.008	.006
Australasia	.005	.01	.0075
India or east Africa	.006	.012	.009
West coast Africa south of Sierra Leone	.01	.02	.015
West coast Africa south of Sierra Leone via Panama	.025	.05	.0375
West coast Africa north of Sierra Leone	.03	.06	.045

Applications may be made and policies issued for 90 days insuring the masters, officers, and crews of American merchant vessels, only if and while navigating the Western Hemisphere (North and South America) at the following flat rates for the period involved:

For every $100 of annual remuneration subject to a minimum of $1,500 and maximum of $5,000.

Voyage.	Steamers.	Sailers and auxiliaries.	Tugs and barges, other than schooner barges.
Between United States Atlantic and Canadian ports	$0.012	$0.025	$0.018
Between ports on the United States Pacific coast	.004	.008	.006
Between ports on the United States Atlantic and Gulf coasts	.004	.008	.006
Between ports on the United States Atlantic and Gulf coasts and Atlantic Canadian ports	.012	.024	.018
Between ports on Atlantic and Gulf coast of North America, and ports in New Brunswick, Nova Scotia, Newfoundland, and the West Indies, not beyond the Island of Trinidad and on the Gulf of Mexico and Caribbean Sea	.03	.06	.045
Between United States Atlantic and Gulf ports, Mexican Gulf ports, and West Indies	.018	.036	.025
Between United States Atlantic and Gulf ports and Mexican Gulf ports	.012	.024	.018
Between ports on the Western Hemisphere	.03	.06	.05

Applications may be made and policies issued for a period of 30 days, insuring masters, officers, and crews of American merchant vessels navigating be-

tween France and the British Isles (England, Ireland, Scotland, and Wales), at the following rate for the period involved:

For every $100 of annual remuneration, subject to a minimum of $1,500 and maximum of $5,000.

Between ports in the British Isles and France, and vice versa:

Steamers	$0.10
Sailers and auxiliaries	.20
Tugs and barges other than schooner barges	.15

TREASURY DEPARTMENT,
BUREAU OF WAR RISK INSURANCE,
MARINE AND SEAMEN'S DIVISION, SEAMEN'S SECTION,
Washington, D. C., December 30, 1918.

It is hereby directed that after 5 days from the date of this order all rates of premium fixed for insurance by the Marine and Seamen's Division, Bureau of War Risk Insurance, shall be withdrawn.

This order shall not affect the applications for insurance which have been received and accepted by the bureau prior to usch withdrawal, but policies shall be issued as heretofore.

Since it appears to the Secretary of the Treasury that vessel owners, shippers, and importers are able to secure adequate war-risk insurance on reasonable terms, no further rates of premium will be fixed or published for the time being.

This action is taken in view of the disappearance of war hazards of shipping since the signing of the armistice.

CARTER GLASS, *Secretary.*

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, May 28, 1919.

ORDER.

All shipowners or charterers upon whom is imposed, by virtue of the act authorizing the issuance of policies insuring the complements of vessels by the Bureau of War Risk Insurance, the duty of procuring this insurance, and who have failed to file provisional or final application for such insurance and who do not file such application on or before June 9, 1919, shall be deemed prima facie guilty of an attempt to evade the provisions of this act, and proceedings will be instituted to enforce the penalty imposed by the terms of the act upon such delinquents.

CARTER GLASS, *Secretary.*

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, May 28, 1919.

ORDER.

Notice is hereby given that the books of the marine section of the Marine and Seamen's Division of the Bureau of War Risk Insurance will be closed in respect of insurance effected prior to January 4, 1919 (except for payment of losses and averages), on the evening of June 9, 1919. Thereupon all insurance still remaining provisional will be deemed definite for the amounts provisionally opened, and, in all cases in which it has not already been made, payment will forthwith be required of the premium shown as due.

CARTER GLASS, *Secretary.*

Exhibit E.

Financial operations of marine section.

	Hulls.	Cargo.	Freight.	Total.
Insurance:				
Insured	$1,227,641,404.00	$890,353,911.00	$23,475.187.00	$2,141,470,502.00
Canceled	23,750,681.00	50,021,318.00	586,387.00	74,358,386.00
Net	1,203,890,723.00	840,332,593,00	22,888,800.00	2,067,112,116.00
Premiums:				
Received	26,208,044.95	23,698,361.57	305,582.47	50,211,988.99
Returned	2,237,064.13	1,225,322.61	3,192.92	3,465,579.66
Net	23,970,980.82	22,462,038.96	301,389.55	46,746,409.33

Insurance on cargoes:	
American, 53.45 per cent	$449,157,770.95
Foreign, 46.55 per cent	391,174,822.05
Losses:	
Hulls	15,612,552.68
Cargo	14,099,354.09
Freight	228,888.88
Total	29,940,795.59

United States Shipping Board
Emergency Fleet Corporation
Division of Insurance,
Washington, July 17, 1919.

Hon. Frederick R. Lehlback,
Chairman Subcommittee of Committee on the
Merchant Marine and Fisheries.
House of Representatives, Washington, D. C

Sir: Referring to my testimony before your committee on the 9th instant and your request for a list of losses for which the insurance fund of the United States Shipping Board Emergency Fleet Corporation is liable, I hand you the attached. This list shows the accidents grouped as follows:

	Estimated.		Paid.	
	Marine.	War.	Marine.	War.
Collisions	$1,215,690.00	$60,000.00	$47,676.66	.....
Strandings	4,319,370.00	.....	.....	.....
Machinery damage	572,400.00	.....	.....	.....
Steering-gear trouble	325,800.00	.....	1,539.38	.....
Heavy weather	522,400.00	.....	1,546.76	$65.00
Fire	980,000.00	.....	1,071.50	.....
Serious leaks	120,000.00	.....	70,000.00	.....
Total loss	1,749,750.00	1,870,000.00	2,311,167.11	8,038,406.74
Miscellaneous	174,300.00	175,000.00	1,071.50	.....
Total	9,979,710.00	2,105,000.00	2,434,072.91	8,038,471.74

I have also given the name of the vessel, the date of the accident, the estimated loss, or the amount paid, and a general idea of where the accident happened. The marine and war losses are shown separately.

I trust that the five copies inclosed will give you the information desired. If I can be of any further service to you or the committee, I will be very glad to do anything you may suggest.

Yours, very truly,

B. K. Ogden,
Acting Director of Insurance.

Losses for which Shipping Board is liable.

COLLISIONS.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Maine	Nov. 5, 1917	$500.00				Trial trip.
Osage	Oct. 30, 1917	3,000.00				San Francisco.
Pawnee	Sept. 5, 1917	18,000.00				White Sea.
Pequot	Nov., 1917	5,000.00				
Lake View	Nov. 24, 1917	300.00				Cleveland.
Jupiter	Dec. 19, 1917	75,000.00				Staten Island.
Coosa	Dec. 17, 1917	1,000.00				
Paulsboro	Jan. 30, 1918	6,000.00				
Argos (barge)	Jan. 12, 1918	1,400.00				
Armenia	Apr., 1918	500.00				Dartmouth.
Lake Placid	Oct. 19, 1917	2,000.00				Port Colborne.
Minneapolis	Apr. 22, 1918			$44,000.00		Ambrose Channel.
Owego	Jan. 14, 1918	500.00				Off coast of Spain.
Do	Jan. 21, 1918	500.00				Lisbon.
Lake Maurepas	May 20, 1918	5,000.00				Cornwall Canal.
Virginia	Apr. 7, 1918	6,000.00				Roeun to Texas.
Lake Crystal	May 20, 1918	250.00				Welland Canal.
Do	May 25, 1918	500.00				
New York	May, 1918	2,500.00				Bordeaux.
Lake Maurepas	June 17, 1918	500.00				
Lake Catherine	July 12, 1918	500.00				Cleveland.
Yuma	do	750.00				Brooklyn.
Deepwater	do	40.00				Do.
Lake Duncan	July, 1918	700.00				Great Lakes to seaboard.
Westfield	July 21, 1918	25,000.00				While on convoy.
Yselhaven	Apr. 11, 1918	2,000.00				New York.
Alkaid	July 21, 1918	700.00				No claim.
Mahoning	Aug. 2, 1918	25,000.00				Norwalk.
H. M. Flagler	Aug. 9, 1918	3,000.00				New York.
Adonis	Aug. 8, 1918	23,300.00				Newport News.
Avondale	do	700.00				Roeum.
Yadkin	July 7, 1918			321.72		Spain.
Georgia	July 20, 1918	500.00				Texas to New York.
Absaroka	July 2, 1918	400.00				Gibraltar.
Lake Pachuta	Sept. 5, 1918	700.00				Welland Canal.
Lake Butler	Sept. 8, 1918	500.00				Newport News.
Neuse	Sept. 7, 1918	300.00				New York.
Western King	Sept. 6, 1918	800.00				Bermuda.
Westfield	Aug., 1918	1,500.00				Gibraltar.
Do	Sept., 1918	12,000.00				Genoa.

Losses for which Shipping Board is liable—Continued.

COLLISIONS—Continued.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Lake Allen	Sept. 12, 1918	$1,000.00				Boston to Norfolk.
James MeGee	Oct. 3, 1918		$60,000.00			
Boulton (wood)	Sept. 14, 1918	500.00				Seattle.
Mijdreeht	Aug. 24, 1918	1,000.00				Brest.
Keystone (tug)	Oet. 11, 1918	300.00				
Noord Brabant	Oet. 3, 1918	500.00				Lambert Point.
Deepwater	Oct. 16, 1918	1,000.00				New York.
L. W. Robinson	Oet., 1918	500.00				Lambert Point.
J. A. Botswick	Nov. 8, 1918	500.00				Mareus Hook.
Lake Marion	....do	500.00				Boston.
Avondale	Oet. 17, 1918	2,500.00				Havre.
Lake Sebago	Nov. 10, 1918	1,000.00				Norfolk.
Lake Akkra	Oet. 19, 1918	2,000.00				Portland, Me.
Ameiica	....do	5,000.00				Do.
Lake Wilson	Oet. 22, 1918	3,000.00				Quebee.
Crainereek	....do	2,000.00				Do.
West Hampton	Oet. 7, 1918	5,000.00				France.
Sag Harbor	Nov., 1918	1,000.00				Norfolk to Boston.
Ida	Sept. 29, 1918	200.00				Franee.
Crayeroft	Nov., 1918	800.00				Quebee.
Andalusia	Sept. 16, 1918	50,000.00				Genoa.
Mijdrecht	Aug., 1918	2,000.00				New York.
Alioth	Oct. 29, 1918	1,500.00				Boea Grande.
Mahoning	Oet. 21, 1918	1,800.00				Cranes Dry Doek.
Texaeo	Nov. 9, 1918	1,800.00				Port Arthur.
Lake Kyttle	Nov. 14, 1918	2,500.00				Welland Canal.
Calistoga	Nov. 19, 1918	1,000.00				
Crathorne	Nov. 24, 1918	2,000.00				Trial trip.
Lake Orange	Nov. 2, 1918	1,000.00				
Westfield	Nov. 11, 1918	1,500.00				New York.
Allentown	Nov. 7, 1918	1,000.00				Do.
Calispell	Nov. 11, 1918	5,000.00				
West Hampton	Dec. 1, 1918	3,000.00				
Western Pride	Nov. 20, 1918	1,000.00				
Westland	Dee. 19, 1918	2,000.00				Bermuda to New York.
Aseutney	Dec., 1918	1,000.00				Brooklyn.
Lake Auriee	Dec. 6, 1918	1,000.00				Baltimore to Boston.
Eastern Sea	Nov. 6, 1918	2,000.00				Franee.
Yuma	Nov. 25, 1918	20,000.00				Brooklyn.
Cote Blanehe	Nov. 30, 1918	200.00				
Omsk	Jan. 2, 1919	1,000.00				While docking.
Kishinev	Nov. 1, 1918	800.00				Marseille.
A. D. MacTier	Oet. 25, 1918	1,000.00				

J. S. Botswick	Dec. 31, 1918	1,000.00				Gawanus Flats.
Lake Mattato	Nov. 25, 1918	1,500.00				Cornwall Canal.
Topila	Nov., 1918	2,500.00				Tampica.
R. S. Warner	Jan. 3, 1919	1,500.00				Tompkinsville.
Elisabeth	Jan. 12, 1919	1,000.00				New York.
Lake Gratan	Jan. 21, 1919	30,000.00				
Lake Hurst	Jan. 14, 1919	1,000.00				Do.
Lake Washburn	Jan. 4, 1919	7,000.00				Boston.
Adrian Iselin	Jan. 22, 1919	2,000.00				Norfolk.
Magdelana	May 10, 1918	2,500.00				Newport News to Providence.
Lake Fostoria	Jan. 14, 1919	1,000.00				East River.
Wilhelm Jebsen	Dec. 26, 1918	1,000.00				New York to Port Arthur.
Eastport	Dec., 1918	2,500.00				
Zuiderdijk	Jan. 27, 1919	10,000.00				Panama.
Barendrecht	Jan. 24, 1919	500.00				Bay Ridge.
Do	do	2,000.00				Do.
Lake Crystal	Jan. 18, 1919	5,000.00				Boston to Cuba.
Bonnifon (wood)	Jan. 30, 1919	500.00				
Kishinev	Dec. 28, 1918	300.00				Gibraltar.
Lake Yelverton	Dec. 21, 1918	100.00				France.
Do	Dec. 22, 1918	1,000.00				Do.
Do	Dec. 28, 1918	200.00				Do.
Do	Jan. 6, 1919	800.00				Do.
Overbrook	Jan. 24, 1919	1,000.00				Bayonne.
Neuse	Dec. 30, 1918	250.00				Gibraltar.
Calistoga	Nov. 28, 1918	500.00				Quebec.
Lake Graphite	Dec. 10, 1918	2,500.00				Do.
Beatrice	Jan. 27, 1919	500.00				Brooklyn.
Phecda	Feb. 2, 1919	5,000.00				Lamberts Point.
Lake Marion	Jan. 14, 1919	500.00				East River.
O. T. Waring	Jan. —, 1919	50,000.00				Antwerp.
Black Arrow	Jan. 7, 1919			$3,354.94		Newport News.
Eastern Light	Feb. —, 1919	1,500.00				Norfolk to Falmouth.
Redondo	Feb. 27, 1919	500.00				North River.
Beloit (wood)	Feb. 11, 1919	15,000.00				
West Cape	Feb. 26, 1919	2,000.00				New York.
Mercer	Jan. 15, 1919	6,000.00				Brooklyn.
Dubhe	Feb. —, 1919	1,500.00				Gibraltar.
Sassenheim	do	25,000.00				Nantucket Shoals.
Lake Hewes	Jan. 11, 1919	2,500.00				New York.
Andalusia	Feb. 10, 1919	5,000.00				Gibraltar.
Western City	Feb. 19, 1919	50,000.00				Genoa to Gibraltar.
Mercer	Mar. —, 1919	10,000.00				English Channel.
Yosemite	Feb. 15, 1919	1,500.00				St. Nazaire.
Lake Washburn	Dec. 28, 1918	1,000.00				East Boston.
Neptunus	Feb. 1, 1919	1,500.00				Porto Prince.
Wishkah (wood)	Mar. 11, 1919	1,000.00				Stapleton.
Phoenix	Mar. 7, 1919	2,500.00				Bayonne.
Lake Hemlock	Mar. 8, 1919	1,000.00				Stapleton.
Toula	Mar. 12, 1919	1,000.00				Erie Basin.
Maartendijk	Feb. 27, 1919	500.00				
O. T. Waring	Mar. 21, 1919	5,000.00				Shewans Dry Dock.

Losses for which Shipping Board is liable—Continued.

COLLISIONS—Continued.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Abrigada (wood)	Feb. 2, 1919	$5,000.00				San Francisco.
West Shore	Mar. 24, 1919	1,000.00				New York.
Alapaha (wood)	Mar. 31, 1919	10,000.00				Hampton Roads.
Garabaldi	Mar. 15, 1919	500.00				Brooklyn.
Belair (wood)	Mar. 27, 1919	500.00				Cranes Dry Dock.
Lake Yemassee	Feb. 18, 1919	1,000.00				Sewalls Point.
O. T. Waring	Mar. 31, 1919	1,000.00				Gowanus Creek.
Lake Gormania	Mar. 30, 1919	1,000.00				Erie Basin.
Kanabec (wood)	Feb. 19, 1919	6,000.00				Brooklyn.
Veerhaven	Mar. 25, 1919	3,000.00				Stapleton.
Sapinero	Mar. —, 1919	2,500.00				Philadelphia to Falmouth.
Absecon	Mar. 26, 1919	1,000.00				Bush Terminal.
Rondo	Jan. 21, 1919	500.00				Atlantic Docks.
Deepwater	Mar. 3, 1919	1,000.00				Chesapeake Bay.
Lake Lesa	Apr. 8, 1919	1,000.00				Erie Basin.
Lake Yelverton	Mar. 20, 1919	1,000.00				Dartmouth.
Westlake	do	1,500.00				Commonwealth Pier.
Abrigada (wood)	Apr. 16, 1919	500.00				
Western Pride	Mar. 10, 1919	1,000.00				Brooklyn.
Wishkah (wood)	Mar. 19, 1919	1,500.00				Staten Island.
Itanca (wood)	Mar. 28, 1919	1,500.00				Brooklyn.
Yaquina	do	1,000.00				Do.
Pascagoula (wood)	Mar. 30, 1919	5,000.00				Long Island.
Westfield	Apr. 5, 1919	800.00				Erie Basin.
Gorredijk	Apr. 13, 1919	500.00				Gibraltar.
Redondo	Apr. 9, 1919	1,500.00				New York to Gibraltar.
Contoocook	Mar. 28, 1919	1,000.00				Erie Basin.
Plainfield	Feb. 4, 1919	1,500.00				Robbins Dry Dock.
Westfield	Apr. 10, 1919	600.00				Erie Basin.
Kanabec (wood)	Apr. 14, 1919	400.00				Cranes Dry Dock.
W. L. Steed	Apr. 19, 1919	1,500.00				
Yankee	May 4, 1919	1,000.00				Portland to Norfolk.
Lake Piekaway	Mar. 16, 1919	1,000.00				San Francisco.
Rondo	May 4, 1919	500.00				Hoboken.
Lake Leval	Apr. 8, 1919	500.00				Erie Basin.
Redondo	Feb. 26, 1919	250.00				North River.
Aniwa	Apr. 27, 1919	1,000.00				
Mirach	Apr. 28, 1919	500.00				Brooklyn.
Saugerties	Apr. 13, 1919	1,000.00				North River.
Bavaria	Apr. 14, 1919	2,500.00				Antwerp.
Sacarappa	May. —, 1919	2,000.00				Havre.

Belair (wood)	Apr. 16, 1919	1,000.00				East River.
Western Maid	Apr. 6, 1919	1,500.00				Spain to New York.
Isanti	May 2, 1919	10,000.00				New York.
Westbrook	May —, 1919	1,000.00				Hoboken.
Lake Allen	Apr. 18, 1919	500.00				Robbins Dry Dock.
Lake Sterling	Apr. 26, 1919	1,000.00				Do.
Isonomia	May 3, 1919	1,000.00				Brooklyn.
West Arrow	Mar. 17, 1919	1,000.00				Honolulu.
Themisto	Mar. 25, 1919	500.00				Gibraltar.
Barados (wood)	Apr. 24, 1919	2,500.00				Lambert Point.
West Eagle	Apr. 4, 1919	1,500.00				Antwerp.
Neeolah (wood)	May 4, 1919	1,500.00				Bush Terminal.
Costillo	May 31, 1919	2,500.00				New York.
Agwidale	June 4, 1919	10,000.00				Nantucket.
Do	Dec. 22, 1918	1,000.00				France.
Lake Indian	Mar. 19, 1919	1,500 00				Erie Basin.
The Lambs	Apr. 17, 1919	1,000.00				Nordingham.
Oscada	Apr. 16, 1919	2,500.00				Havre.
West Elcajon	May, 1919	1,500.00				Adriatie port.
West Cape	Apr. 27, 1919	1,000.00				Newport, England.
Lake Farge	Mar. 27, 1919	1,000.00				Brooklyn.
Lake Belnona	Jan. 31, 1919	1,000.00				Do.
Western Wave	May 26, 1919	5,000.00				Erie Basin.
Bayou Teehe (wood)	June 1, 1919	50,000.00				Boston.
Dirigo	June 13, 1919	1,500.00				Robins Dry Dock.
Yellowstone	June 18, 1919	5,000.00				New York.
Do	June 12, 1919	1,000.00				Do.
Lake Fraiehur	May 5, 1919	1,500.00				Superior, Wis.
Appales	May 12, 1919	1,500.00				Morse Dry Doek.
Ice King	do	1,500.00				Do.
Western Sea	May 26, 1919	1,000.00				Erie Basin.
Passaic Bridge	May 15, 1919	1,000.00				Jersey Central Bridge.
Ceralvo	May, 1919	2,500.00				Cornwall Canal.
Vesta	May 2, 1919	1,000.00				New York.
Philippines	May 12, 1919	3,000.00				St. Nazaire.
Covedale	May 25, 1919	1,500.00				St. Lawrence River.
Cowee	May 3, 1919	1,000.00				Cleveland.
Waueonda	May 10, 1919	500.00				In port.
Cowanshannock	May 1, 1919	1,000.00				Welland Canal.
Coushatta	May 7, 1919	1,000.00				Montreal.
Rivera	May 6, 1919	1,000.00				Erie Basin.
Coutolene	May 8, 1919	1,000.00				Montreal.
Chincha	Feb. 17, 1919	2,500.00				La Pallice.
Saxon	Feb. 15, 1919	2,000.00				Azores.
Lake Erie [1]	Jan. 16, 1919	272,250.00				Cardiff Roads.
Garfield	May 29, 1919	5,000.00				Barbados.
Invineible	May 20, 1919	6,000.00				London.
Norlina	Mar. 23, 1919	15,000.00				Charleston.
Keystone (tug)	Mar. 15, 1919	1,000.00				Lambert Point.
Edna G (tug)	Mar. 21, 1919	1,500.00				Norfolk.
W. B. Saunders (tug)	Mar. 24, 1919	500.00				Staten Island.

[1] Sunk.

Losses for which Shipping Board is liable—Continued.

COLLISIONS—Continued.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Prusa	May 28, 1919	$1,000.00				Erie Basin.
Charlot	May 23, 1919	2,500.00				New York.
Guaro	Apr. 17, 1919	1,000.00				Morse Dry Dock.
Nantaska	May 23, 1919	2,000.00				North River.
Coulee	May 17, 1919	1,500.00				Lachine Canal.
Maruba	Jan. 24, 1919	1,500.00				Robbins Dry Dock.
H. M. Whitney	May 10, 1919	1,500.00				Brooklyn.
Western Wave	May 17, 1919	1,000.00				Bush Terminal.
Isanti	June 23, 1919	1,000.00				Shewans Dry Dock.
Westbrook	June 9, 1919	1,500.00				Morse Dry Dock.
Oakland	May 11, 1919	1,000.00				Brooklyn.
George W. Barnes	Apr. 6, 1919	5,000.00				Bayonne.
Prince Willem I	Apr. 21, 1919	1,000.00				Erie Basin.
Cokato	Apr. 24, 1919	10,000.00				Azores.
Saranac	Apr. 21, 1919	1,000.00				North River.
Artigas	Apr. 18, 1919	1,000.00				Brooklyn.
Baldridge (tug)	Apr. 20, 1919	500.00				Cape Cod Canal.
W. B. Saunders (tug)	Apr. 21, 1919	500.00				North River.
Bellatrix	Apr. 24, 1919	1,000.00				Wilmington to Philadelphia.
Lake Fernwood	Apr. 8, 1919	1,000.00				New York.
Osakis	Apr. 21, 1919	3,500.00				Chesapeake Bay.
Do	Apr. 15, 1919	1,000.00				Staten Island.
H. M. Whitney	Apr. 16, 1919	1,000.00				Gowanus Creek.
West Lashaway	Apr. 17, 1919	1,000.00				Brooklyn.
Melrose	Apr. 18, 1919	1,000.00				Dry dock.
W. B. Saunders (tug)	Apr. 23, 1919	1,500.00				Erie Basin.
Do	Oct. 6, 1918	42,000.00				Halletts Point.
Total		1,215,690.00	$60,000.00	$47,676.66		

GROUNDED AND STRANDED.

Neuse	Dec. 4, 1917	10,000.00				Genoa.
Wacouta	Dec. 2, 1917	500.00				Havana.
Iaqua	Feb. 4, 1918	500.00				Newport News.
Clara	Feb., 1918	100,000.00				Halifax.
Star of England	Mar., 1918	1,930.00				
Deepwater	Jan. 15, 1918	3,500.00				
Redondo	Apr. 30, 1918	2,000.00				Panama Canal.

Binghampton	May 6, 1918	1,000.00				Horseshoe Shoal.
Lake Crescent	May, 1918	5,000.00				Quebec.
Lake Shawana	....do....	800.00				Manitowoc.
Maine	May 20, 1918	700.00				Baltimore.
Lake Edon	May 30, 1918	500.00				
Lake Crystal	June 2, 1918	3,000.00				
Veerhaven	May 7, 1918	5,000.00				Cape Henry.
Lake Houghton	June 11, 1918	600,000.00				Nova Scotia.
Redondo	June 13, 1918	450,000.00				Cuba.
Elisabeth	June, 1918	170,000.00				Key West.
Lake Maurepas	May, 1918	500.00				Welland Canal.
Western City	June 15, 1918	300.00				Portland, Oreg.
Sewalls Point	July 2, 1918	600,000.00				Sambro Ledges.
Overbrook	July 9, 1918	11,000.00				Nova Scotia.
West Wind	June 28, 1918	25,000.00				Cape Henlopen.
Pequot	June 30, 1918	175,000.00				Halifax.
Lake Crystal	July 28, 1918	2,500.00				Block Island.
Triton	May 25, 1918	7,000.00				Cuba.
Do	July 27, 1918	5,000.00				Pollock Rip.
Prince Fr. Hendrik	July 17, 1918	5,000.00				San Juan.
Lake Ogden	Aug. 2, 1918	8,000.00				Bath.
H. M. Flagler	Aug. 25, 1918	5,000.00				Texas to New York.
Brabant	July 11, 1918	1,000.00				Fenwick Shoals.
Noord Brabant	Sept. 7, 1918	5,000.00				Stapleton.
Coyote (wood)	Sept. 6, 1918	12,000.00				Bermuda.
Mahaska (wood)	Sept. 8, 1918	1,000.00				Port Hudson.
Sleidrecht	Aug. 31, 1918	300.00				Sewalls Point.
Western King	Aug., 1918	25,000.00				Bermuda.
Prins Willem I	Sept., 1918	1,000.00				Sagua.
F. L. Skinner	Sept. 18, 1918	25,000.00				Azores.
Allentown	Sept., 1918	1,000.00				Philadelphia.
Jobshaven	Sept. 18, 1918	1,000.00				Norfolk to Chile.
Larenberg	Sept. 16, 1918	1,000.00				Nantucket Shoal.
Pollux	Sept. 14, 1918	1,000.00				Newport News.
Lake Arline	Oct. 27, 1918	5,000.00				Lake Huron.
Lakeville	....do....	3,000.00				Nantucket Shoal.
West Golac	Oct. 22, 1918	10,000.00				
Lake Bledsoe	Oct. 28, 1918	150.00				Barnegat.
Dancy (wood)	Oct. 21, 1918	8,000.00				Curtis Bay to Boston.
Kishinev	Oct. 6, 1918	5,000.00				Casa Banca.
Basaan (wood)	Nov. 29, 1918	(1)				
Seneca	July 2, 1918	130,000.00				Block Island.
Bedminster (wood)	Dec., 1918	200,000.00				Vineyard Sound.
Eastern Star	Oct. 30, 1918	5,000.00				
Maine	Jan. 18, 1918	10,000.00				Mediterranean.
Lake Frampton	Dec. 14, 1918	10,000.00				Montreal to Quebec.
Blandan (wood)	Jan. 9, 1919	8,000.00				Orange Key.
H. M. Flagler	Jan., 1919	3,000.00				Guanica.
Lake Galera	....do....	1,000.00				Norfolk.
Westlake	Jan. 21, 1919	2,500.00				Horseshoe Buoy.
Orion	Jan. 4, 1919	1,000.00				Gibraltar Bay.

[1] No drainage.

Losses for which Shipping Board is liable—Continued.

GROUNDED AND STRANDED—Continued.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Themisto	Feb. 1919	$500.00				
Lake Frampton	Feb. 6, 1919	1,000.00				Delaware River.
Wishkah (wood)	Feb., 1919	5,000.00				Cape Lookout.
Costillo	Jan. 30, 1919	1,000.00				Progresso.
Lake Frampton	Feb., 1919	1,000.00				Cuba.
Lake Pachuta	Feb. 26, 1919	1,000.00				Ben Davis Buoy.
Westerdijk	Feb. 11, 1919	5,000.00				Santos.
Mizar	Jan. 31, 1919	1,000.00				Chatham Bar.
Boxley (wood)	Mar., 1919	7,000.00				South Pass.
Susquehanna	Oct. 29, 1918	2,500.00				Sevilles.
Lake Winthrop	Dec. 21, 1918	500.00				New York to France.
Arakan	Mar. 5, 1919	500.00				Jersey City.
Elisabeth	Mar. 7, 1919	50,000.00				Cape Hatteras.
Lake Yemassee	Feb. 11, 1919	2,500.00				Winter Quarter Shoal.
Bellatrix	Mar. 14, 1919	1,500.00				Bahia.
West Arrow	Mar. 27, 1919	1,500.00				Norfolk.
Wahkiukum (wood)	Mar. 29, 1919	500.00				Bay Ridge.
Lake Conway	Mar. 11, 1919	2,000.00				Savannah.
Lake Mattato	Apr. 5, 1919	1,000.00				Cherry Island Flats.
Pluto	Apr. 9, 1919	1,000.00				Porto Rico.
F. P. Jones	Apr. 24, 1919	150,000.00				Sow and Pig Shoal.
Bavaria	Apr. 18, 1919	1,000.00				Flushing.
Volunteer	May 5, 1919	2,500.00				Elbe.
Procyon	Mar. 29, 1919	1,000.00				Martin Gracia Bar.
Lake Washburn	Apr. 28, 1919	1,000.00				Quincy Point, Mass.
Lake Arline	May 18, 1919	1,500.00				Block Island.
Constantia	Apr. 28, 1919	2,500.00				Nash Shoals.
Benvola (wood)	Apr. 14, 1919	1,000.00				Niearagua.
Kuwa (wood)	May 17, 1919	2,500.00				New Orleans.
West Zula	June 7, 1919	7,000.00				Rio.
Cheron (wood)	Apr. 25, 1919	2,500.00				Gibraltar to Oran.
Leersam	Mar. 30, 1919	1,000.00				Buenos Aires to Cuba.
J. C. Donnell	Apr., 1919	2,500.00				Port Lobos to Philadelphia.
George W. Barnes	Nov. 12, 1918	5,000.00				Portland, Me.
Westford	June 20, 1919	2,500.00				Abo.
Sag Harbor	June, 1919	80,000.00				Cuba.
Lake Fondulac	Feb. 6, 1919	2,500.00				Diamond Shoals.
Lake Winona	June 3, 1919	5,000.00				South Pass.
E. C. Pope	May 23, 1919	30,000.00				Coast of Yucatan.
Baldridge (tug)	May 31, 1919	5,000.00				Coast of Maine.

Brookfield (wood)	May 29, 1919	5,000.00				Near Ocean City.
Clara	June 20, 1919	5,000.00				English Channel.
Total		4,319,370.00				
Rajah	Jan., 1918	$8,000.00				Sydney.
Sacramento	Feb., 1918	25,000.00				Hawaii.
Wm. Isom	do	30,000.00				
West Chester	Apr., 1918	35,000.00				Kingston.
Silverado	May 24, 1918	5,000.00				San Francisco to Honolulu.
Westward Ho	June, 1918	400.00				United States to Europe.
Western King	do	50,000.00				Halifax.
Garibaldi	July 2, 1918	5,000.00				Norfolk.
Dubhe	July, 1918	10,000.00				Pernambuco.
Lake Annette	July 8, 1918	1,000.00				
Quinault (wood)	Aug. 20, 1918	10,000.00				San Francisco.
Sacramento	Aug., 1918	1,000.00				Bahia.
Senecca	Aug. 21, 1918	500.00				
Lake Gardner	Sept. 2, 1918	1,000.00				
Dubhe	Aug., 1918	3,500.00				Rio.
Maine	Sept. 21, 1918	5,000.00				France to New York.
Wakan (wood)	Oct., 1918	1,000.00				San Francisco.
Bromela (wood)	Oct. 5, 1918	500.00				Grave Harbor.
Randwijk	Oct. 11, 1918	500.00				Great Lakes to Seaboard.
Mijdrecht	Sept., 1918	300.00				Azores.
Arundo	Oct. 2, 1918	300.00				South America to New York.
Bedminster (wood)	Oct. 20, 1918	5,000.00				Charleston.
Briton	Sept. 25, 1918	700.00				
Sassenheim	Sept. 20, 1918	700.00				Newport.
Overbrook	Oct., 1918	300.00				Sydney.
J. A. Botswick	Oct. 22, 1918	1,000.00				Pilot Town.
Coyote (wood)	Oct. 21, 1918	5,000.00				Norfolk.
Magdelena	Nov., 1918	5,000.00				Colon.
J. A. Botswick	do	2,500.00				New York to Philadelphia.
Lake Lesa	do	700.00				Norfolk to Boston.
Kineo	do	5,000.00				San Francisco.
Allentown	do	2,000.00				New York.
Mijdrecht	Oct., 1918	3,000.00				Ponto del Gada.
Ida	Oct. 20, 1918	3,000.00				France.
Silverado	Nov. 22, 1918	10,000.00				Ponto Arenas.
Lake Markham	do	3,000.00				
Escutney	Nov. 27, 1918	1,000.00				
Tacony	Nov. 4, 1918	2,000.00				
Overbrook	Dec. 2, 1918	5,000.00				New York.
Lake Marion	Dec. 8, 1918	5,000.00				Do.
Beloit (wood)	Dec. 7, 1918	10,000.00				San Pedro.
Ossineke	Nov. 20, 1918	5,000.00				

Losses for which Shipping Board is liable—Continued.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Lake Wilson	Jan. 30, 1919	$5,000.00				North River.
Bancraft (wood)	Nov. 20, 1918	8,000.00				Honolulu.
Veerhaven	Dec. 26, 1918	1,000.00				New York.
Wassaic	Jan. 5, 1919	3,000.00				Corrundo.
Pollux	Jan. 14, 1919	2,500.00				Charleston.
Lone Star (wood)	Jan., 1919	1,000.00				
Wampum	do	5,000.00				Plymouth to Baltimore.
Baladan (wood)	do	3,000.00				San Pedro.
Storviken	Jan. 26, 1919	500.00				New Orleans to Key West.
Basaam (wood)	Feb. 1, 1919	3,000.00				Boston.
Omsk	Feb. 27, 1919	3,000.00				New York to Cette.
Aniwa	Jan. 10, 1919	1,500.00				Azores.
Lake Frampton	Feb., 1919	3,000.00				Manati.
Oconee	Jan., 1919	1,500.00				Cette to Gibraltar.
Adonis	Jan. 25, 1919	500.00				Cuba.
Maine	Jan. 20, 1919	2,500.00				New York to Gibraltar.
Westbrook	Jan., 1919	2,000.00				New York to St. Nazaire.
Winterswijk	do	1,000.00				Norfolk.
Western King	Feb. 9, 1919	1,500.00				Barcelona.
Waubesa	Mar., 1919	10,000.00				Delaware Breakwater.
Western Scout	Feb. 21, 1919	1,500.00				Gibraltar Bay.
Challenger	Apr. 2, 1919	2,500.00				Brest.
Balsto (wood)	Mar. 13, 1919	2,500.00				Jacksonville.
Bonham (wood)	Mar. 3, 1919	2,500.00				Havana.
Prins Fr. Hendrik	Feb. 1, 1919	1,500.00				New Orleans to San Juan.
Alloway	Mar., 1919	1,000.00				Bay Ridge.
Magunkook	Feb., 1919	3,000.00				San Francisco to Norfolk.
Westmead	Apr., 1919	1,000.00				Savannah.
Westgrove	Apr. 12, 1919	10,000.00				Hortan.
Botsford (wood)	Feb., 1919	1,000.00				Kingston.
Castlewood	Apr., 13, 1919	7,000.00				Trial trip.
Balosora (wood)	Mar. 4, 1919	40,000.00				St. Thomas.
West Avenal	Apr. 10, 1919	2,000.00				Newport News.
Lake Aurice	Apr. 16, 1919	1,000.00				Brunswick.
Belair (wood)	Apr. 24, 1919	8,000.00				New York to Havre.
Beukelsdijk	Apr. 11, 1919	10,000.00				Havre.
Clio	Apr. 27, 1919	1,000.00				Stapleton.
Alcona	Apr. 29, 1919	1,500.00				Hampton Roads.
Daram	April, 1919	1,000.00				Havre.
Western Maid	Apr. 29, 1919	5,000.00				Sharps Island.
Westfield	April, 1919	1,000.00				Azores.

Eastwind	May 13, 1919	1,000.00				New York.
Bonham (wood)	May 9, 1919	1,000.00				Off Port Loma.
Mijdrecht	May 13, 1919	1,500.00				Key West.
Bachus	May 17, 1919	2,500.00				Do.
Jobshaven	Apr. 17, 1919	2,500.00				Baltimore to New York.
Westshore	Apr. 4, 1919	1,000.00				St. Nazaire.
Blythedale	Apr. 10, 1919	1,000.00				San Pedro.
Lake Akkra	May 8, 1919	1,500.00				Key West.
West Catanace	May, 1919	1,500.00				New York.
North Pole	June, 1919	10,000.00				Queenstown.
Daca (wood)	Apr. 19, 1919	4,500.00				Neuvitas Bay.
Lake Frampton	Apr. 29, 1919	5,000.00				Barry Roads.
Dirigo	Apr. 27, 1919	1,500.00				France.
Woonsocket	June, 1919	3,000.00				Hook of Holland.
Watonwan	June 9, 1919	2,000.00				Key West.
Swampscott	May 30, 1919	1,000.00				Do.
Osakis	May, 1919	1,500.00				New York to France.
Western Knight	May 20, 1919	2,000.00				Seattle to Hong Kong.
Elinor	May, 1919	1,500.00				Bermuda.
Neuse	Apr. 27, 1919	5,000.00				New York to Trieste.
West Grama	June 1, 1919	50,000.00				Gibraltar to Norfolk.
Saranac	Mar. 21, 1919	1,500.00				Hoboken.
West Zuca	Apr. 21, 1919	2,500.00				Dublin.
New Windsor	May 22, 1919	3,000.00				Hamburg to England.
Eastern Light	June 2, 1919	1,000.00				New York to Rotterdam.
Hoxie	May, 1919	5,000.00				Hamburg to Baltimore.
Lake Lilicuson	May 26, 1919	1,000.00				Montreal to Falmouth.
Arambi	June 13, 1919	2,000.00				Port Arthur.
West Carnifax	June 23, 1919	5,000.00				New York to Liverpool.
West Coast	April, 1919	1,500.00				Falmouth.
Edith	....do....	40,000.00				Santos to New Orleans.

STEERING GEAR TROUBLE.

Huron	Jan. 25, 1918	$1,200.00				
Coronado	Apr., 1918	500.00				Havre.
Lake St. Regis	May 25, 1918	1,000.00				
Otsego	Apr. 15, 1918	1,000.00				United States to Italy.
Do	Mar. 7, 1918	500.00				Do.
Yellowstone	July 24, 1918	1,000.00				Colon.
Canoga	July 7, 1918	2,500.00				Mobile to Buenos Aires.
Thuban	May, 1918	1,500.00				Baltimore.
Crawl Keys	Aug. 27, 1918	3,000.00				Sydney to Nova Scotia.
Western King	Oct. 20, 1918	500.00				Ponto del Gada.
Belota (wood)	Nov. 17, 1918	10,000.00				Coast of Frisco.
Belair (wood)	Nov. 18, 1918	20,000.00				New Orleans.
J. E. Myers (tug)	Dec. 2, 1918	500.00				
Sturgeon Bay	Dec., 1918	2,500.00				
Coyote (wood)	Dec. 24, 1918	5,000.00				Hampton Roads to Habana.

Losses for which Shipping Board is liable.—Continued.

STEERING GEAR TROUBLE—Continued.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Westlake	Dec. 20, 1918	$1,000.00				St. Nazaire to Philadelphia.
Alioth	Dec. 14, 1918	2,000.00				Key West.
Alabat (wood)	Dec. 7, 1918	5,000.00				Coast of Delaware.
Blythedale	Dec., 1918	5,000.00				Honolulu to Frisco.
Balsto (wood)	Dec. 10, 1918	5,000.00				Norfolk
Willem Jebsen	Dec. 23, 1918	1,500.00				Port Arthur.
L. J. Drake	Jan., 1919	1,000.00				Calais to Falmouth.
Maine	do	7,500.00				Off Sandy Hook.
Tuckahoe	do	2,500.00				New York to St. Nazaire.
Matuba	Dec. 26, 1918	3,000.00				
Phoenix	Dec. 15, 1918	8,000.00				
Procyon	Dec., 1918	2,500.00				France.
Misach	Jan., 1919	1,000.00				Philadelphia.
Adrian Iselin	Feb. 2, 1919	500.00				Cape Code Channel.
Bonham (wood)	Jan. 20, 1919	600.00				Habana.
Pascagoula (wood)	Feb. 18, 1919	1,500.00				Nicaragua to Key West.
Woudrichem	Dec., 1918			$1,539.38		Paullac.
Ozaukee	Feb. 11, 1919	1,000.00				Philadelphia to London.
Belding (wood)	Mar., 1919	5,000.00				Honolulu to San Francisco.
Lake Gravite	Mar. 18, 1919	1,000.00				Hampton Roads.
Defiance	Nov. 11, 1918	1,000.00				Off St. Helens.
Dancey (wood)	Mar. 14, 1919	2,500.00				New York to Havre.
Oskawa	Feb. 28, 1919	1,000.00				New York to Brest.
Wieringen	Feb. 18, 1919	3,000.00				Trieste to New York.
Magunkook	Mar. 23, 1919	2,500.00				South Hatteras.
Sapinero	do	60,000.00				Midocean.
Aledo	Apr., 1919	2,500.00				
Lake Washburn	May 2, 1919	1,500.00				Norfolk to Boston.
Western King	Jan. 22, 1919	3,000.00				Spain.
West Durfee	Apr. 4, 1919	3,000.00				St. Nazaire.
Western Wave	June 11, 1919	2,500.00				Philadelphia.
Edith	Apr., 1919	40,000.00				New Orleans.
West Coast	do	1,500.00				Falmouth.
West Carnifax	June 23, 1919	5,000.00				New Orleans to Liverpool.
Arambi (wood)	June 13, 1919	2,000.00				Port Arthur to England.
Hoxie	May, 1919	5,000.00				Delaware Breakwater.
Eastern Light	June 2, 1919	1,000.00				Stapleton.
New Windsor	May 22, 1919	3,000.00				Hamburg to Plymouth.
West Zuca	Apr. 21, 1919	2,500.00				Hoboken.
Saranac	Mar. 21, 1919	1,500.00				Gibraltar to Norfolk.
West Grama	June 1, 1919	50,000.00				New York to Trieste.
Neuse	Apr. 27, 1919	5,000.00				New York to Barcelona.
Osakis	May, 1919	1,500.00				Do.

Woonsocket	June, 1919	3,000.00				Hook of Holland.
Lake Frampton	Apr. 29, 1919	5,000.00				Barry Roads.
Daca (wood)	Apr., 1919	4,500.00				Neuvitas Bay.
Oakland	May 29, 1919	2,500.00				Staten Island.
Galahad	May 9, 1919	3,500.00				Baltimore to Falmouth.
Castlewood	Apr. 29, 1919	1,500.00				Off Virginia Capes.
Total		325,800.00		1,539.38		

HEAVY WEATHER.

Coosa	Jan., 1918				$65.00	Newport News to Cuba.
Maine	Nov., 1917	$3,000.00				Italy.
Owego	Mar., 1918	6,000.00				Off coast of Virginia.
Yucca	Sept., 1917	6,000.00				
Lake George	Feb. 5, 1918	300.00				
Black Arrow	Feb., 1918			$25.25		Guapieca to Jobos.
Santa Cecelia	Dec., 1917	3,500.00				
Western Wave	July 31, 1918	300,000.00				Valparaiso.
Barendrecht	Aug., 1918	800.00				France to New York.
Merak	June, 1918	2,000.00				Norfolk to Brazil.
Clara	Apr. 7, 1918	1,000.00				New York to France.
F. L. Skinner	Jan. 12, 1918	1,000.00				Nova Scotia.
Neuse	Oct., 1918	2,500.00				En route Genoa.
Phoenix	Sept., 1918	5,000.00				New York to France.
Trinidadian	Nov., 1918	2,000.00				
Tuckahoe	Dec., 1918	800.00				New York to France.
Cadaretta	Dec. 11, 1918	25,000.00				Seattle to Honolulu.
Oshkosh	Dec., 1919	3,000.00				San Francisco.
Clio	Dec. 11, 1918	5,000.00				France to New York.
Noord Brabant	Dec., 1918	5,000.00				Cristobal to United States.
Toula	Nov. 9, 1918	1,000.00				New York to Nantes.
Masuda	Nov. 23, 1918	5,000.00				Sydney.
Clio	Dec. 8, 1918	1,000.00				Ponto del Gada.
Triton	Dec., 1918	1,000.00				New York to Santiago.
Mirach	Dec. 20, 1918	2,500.00				
Governor J. Lind	Dec. 18, 1918	1,000.00				Corruno.
Carib	Dec. 29, 1918	2,500.00				
Bulana (wood)	Jan. 17, 1919	1,000.00				Key West.
Yucan	Dec. 24, 1918	1,000.00				Seattle to Russia.
Oestdijk	Dec. 19, 1918	2,500.00				Boston to Rochefort.
Bayou Teche (wood)	Jan. 7, 1919	1,000.00				Mid ocean.
Yadkin	Jan., 1919	1,500.00				Gulf of Lion.
Sliedrecht	Dec. 8, 1918	1,000.00				New York to Rochefort.
Eastwind	Jan., 1919	1,000.00				Seattle to New York.
Black Arrow	Oct., 1917			1,521.51		New York to Marseilles.
West Arrow	Feb., 1919	$1,000.00				Norfolk to La Pallice.
Columbia	Jan., 1919	1,500.00				Iquique.
East Cape	Feb., 1919	1,000.00				Norfolk to Falmouth.
Western Wave	Mar. 26, 1919	3,000.00				New York to Genoa.

Losses for which Shipping Board is liable—Continued.

HEAVY WEATHER—Continued.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Lake Orange	Feb. 13, 1919	$1,500.00				Habana to New York.
Tunica	Jan., 1919	1,000.00				New York to Genoa.
Mahaska (wood)	Mar. 29, 1919	1,000.00				New Orleans.
Watanwan	Mar., 1919	2,500.00				Philadelphia to Falmouth.
Brandywind	do	1,000.00				Gibraltar to New York.
Derigo	do	1,000.00				Philadelphia to France.
North Pines	Mar. 31, 1919	25,000.00				Cape Hatteras.
West Togus	May, 1919	1,000.00				Portland to Norfolk.
R. S. Warner	Mar., 1919	75,000.00				Norfolk to Rio.
Coronado	Feb. 8, 1919	1,500.00				St. Nazaire.
Dubhe	Mar., 1919	4,000.00				Philadelphia to Copenhagen.
Gorredijk	Feb., 1919	2,000.00				New York to Cette.
Oseoda	Apr. 11, 1919	1,500.00				New York to France.
Total		522,400.00		$1,546.76	$65.00	

LEAKING.

Andalusia	Apr., 1918	$40,000.00				New York.
Blanche H. King	May 27, 1918			$70,000.00		Norfolk.
Coconino (wood)	Oct., 1918	3,000.00				San Francisco to Honolulu.
Lone Star (wood)	Oct. 26, 1918	5,000.00				Galveston.
Daca (wood)	Oct. 27, 1918	5,000.00				Seattle.
Bonham (wood)	Nov. 7, 1918	5,000.00				New Orleans.
Abrigada (wood)	Nov. 27, 1918	3,000.00				San Francisco.
Lone Star (wood)	Dec. 6, 1918	8,000.00				Key West.
Kaeo Samud	Dec., 1918	8,000.00				Norfolk to Honolulu.
West Loquassuck	do	2,000.00				Panama to Charlestown.
Lake Copley	Jan. 11, 1919	2,000.00				San Juan.
Rebecca Palmer (wood)	Jan. —, 1919	1,000.00				Weehawkan.
Alanthus (wood)	Dec. 23, 1918	2,500.00				
Allentown	Feb. 13, 1919	5,000.00				Charleston.
Wallawa (wood)	Mar, 1919	1,000.00				Philadelphia to France.
Goodspeed	do	1,000.00				Baltimore.
Cicoa	Apr. 16, 1919	1,000.00				Hampton Roads.
Cawker (wood)	Apr. 23, 1919	15,000.00				Bermuda.
Okesa (wood)	May, 1919	10,000.00				Barbabos.
Congaree (wood)	do	2,500.00				Verdon Roads.
Total		120,000.00		70,000.00		

FIRES.

Deepwater	Jan. 26, 1918			$1,071.50		Baltimore.
Lake Mohonk	Feb. 23, 1918	$500.00				Sewalls Point.
Tacony	Apr. 13, 1918	200.00				New Orleans.
Roepat	May, 1918	4,000.00				
Gooiland	June 28, 1918	5,000.00				Chile to New Orleans.
Adonis	Aug. 18, 1918	500.00				Newport News.
Wieringen	Sept. 14, 1918	100.00				
Ascutney	Oct. 29, 1918	200,000.00				Archangel.
Toula	Oct. 26, 1918	500.00				New York.
Yehama (wood)	Nov. 15, 1918	150,000.00				Habana.
Kuwa (wood)	Dec. 1918	2,500.00				
Western Queen	do	1,000.00				New York to Genoa.
Pollux	Dec. 29, 1918	14,500.00				North River.
Mojave (wood)	Dec. 5, 1918	1,000.00				San Francisco.
Mirach	Dec. 15, 1918	1,000.00				
Neuse	Feb. 10, 1918	50,000.00				Philadelphia.
Quoque (wood)	Dec. 16, 1918	2,000.00				Balboa.
Goree	Feb. 4, 1919	500.00				New York.
Olivant	June, 1918	2,000.00				Do.
Belair (wood)	Mar. 30, 1918	1,500.00				Do.
Jacox	Mar. 19, 1919	10,000.00				Suva.
Yankee	Jan. 29, 1919	7,000.00				Boston to Norfolk.
Sassenheim	Mar. 20, 1919	2,000.00				Cuba.
Roy H. Beattie	Apr. 22, 1919	525,000.00				Norfolk to Pernambuco.
Total		980,800.00		1,071.50		

TOTAL LOSS.

Alamance	Feb. 5, 1918		$1,070,000.00			Baltimore to Liverpool.
San Maria	Feb. 25, 1918				$1,483,539.73	
Atlantic Sun	Mar. 18, 1918				626,728.77	Mid-ocean.
Florance H	Apr. 17, 1918					United States to France.
Tyler	May 2, 1918				917,457.51	Genoa to New York.
Winneconne	June 2, 1918				590,921.60	Mid-ocean.
Carolina	do					Do.
Texel	do				1,405,864.68	Do.
Pinar del Rio	June 9, 1918				776,071.25	Do.
Alcor	June 12, 1918			$1,577,383.55		Seal Island.
George L. Eaton	June 22, 1918			722,783.56		United States to France.
Merak	Aug. 6, 1918				1,304,675.03	Off coast of Virginia.
Blackford (wood)	Sept. 17, 1918	$549,750.00				West coast of Mexico.
Lake City	Oct. 31, 1918		800,000.00			Port Tampa to Baltimore.
Dumaru (wood)	Oct. 16, 1918	600,000.00				United States—Pacific to Philippines.
Coos Bay (wood)	Sept. 11, 1918	600,000.00				Pacific to Arica.
Accoma (wood)	Feb. 15, 1919					New York to France.
Yselhaven	Mar. 14, 1919				1,524,069.77	Baltimore to Copenhagen.
Total		1,749,750.00	1,870,000.00	2,311,167.11	8,038,406.74	

Losses for which Shipping Board is liable—Continued.

MISCELLANEOUS.

Vessel.	Date.	Estimated loss.		Marine paid.	War paid.	Place.
		Marine.	War.			
Wyandotte	Oct. 6, 1917	$500.00				Leaving Habana.
Lake Pewankee	May, 1918	300.00				Canal.
Lake Maurepas	May 22, 1918	1,000.00				Cornwall Canal.
Lake Allen	May 27, 1918	1,000.00				Welland Canal.
Lake Capens	June 4, 1918	1,000.00				Machine Canal.
Lake Sterling	May 10, 1918	600.00				Great Lakes to seaboard.
Georgia	May 3, 1918	25,000.00				England.
Lake Duncan	July, 1918	700.00				Canal.
Tuckahoe	June, 1918	300.00				Boston.
West Hampton	July 16, 1918	600.00				La Pallice.
Virginia	Feb. 5, 1918	5,000.00				Ice damage.
W. H. Tilford	Sept. 4, 1918	2,500.00				
Lake Pachuta	Oct., 1918	1,500.00				Great Lakes to seaboard.
Lake Aurice	Sept. 27, 1918	700.00				Do.
Quoque (wood)	Oct. 24, 1918	100,000.00				Portland, Me.
Agomak (wood)	Oct. 27, 1918	1,000.00				Great Lakes to seaboard.
Lake Gardner	Oct., 1918	1,000.00				Do.
Lake Fondulac	Oct. 31, 1918	3,000.00				Do.
Willem Jebsen	Sept. 13, 1918	2,000.00				Scapa Flow.
Lake Otsquago	Nov. 28, 1918	1,000.00				Great Lakes to seaboard.
Nanecki (wood)	Nov. 24, 1918	3,000.00				Bermuda.
Lake Yelverton	Dec. 21, 1918	100.00				France.
Neeolah (wood)	Dec., 1918	2,500.00				San Francisco.
Arunda	Feb., 1919	2,500.00				Bermuda.
Deepwater	Mar., 1918			$1,071.50		Chesapeake.
Waalhaven	Jan. 17, 1919	2,500.00				Marseilles.
Oostdijk	Mar., 1919		$175,000.00			Amsterdam.
Lake Blanchester	Apr., 1919	15,000.00				Balboa.
Total		174,300.00	175,000.00	1,071.50		

Mr. LEHLBACH. I understand that there are gentlemen present, representatives of marine underwriters and insurance companies, and I think the committee would be glad to hear from them. Is Mr. Bertholf here? You represent the American Bureau of Shipping?

Mr. BERTHOLF. Yes; but we are not underwriters. And the president of the American bureau is here, Mr. Taylor.

Mr. HEDGE. I extended your invitation to the American underwriters and there was a meeting yesterday of the executive committee of the American Marine Underwriters Association, and they have carefully drafted recommendations. The full meeting will be held and they will send their recommendations down probably next week. It is impossible to go over such an important matter in such a short time. In fact, the way it was left at the last meeting I was to write to you or to the secretary asking for a special date for that hearing. That is the reason the Association of Underwriters is not ready to make its report to you to-day.

Mr. LEHLBACH. As was stated at the first meeting held by this subcommittee, the purpose of these hearings is to get information and suggestions upon which to base legislation, if necessary, for the encouragement of marine insurance of the American Merchant Marine by American capital and through the agency of American companies. Now, we would be glad to hear from any representatives, other than Mr. Hedge, who would care to give information or make suggestions in accordance with the plan I have outlined.

Mr. MCGEE. I am here at your invitation.

Mr. EDMONDS. Give the stenographer your name and state in what capacity you appear.

STATEMENT OF MR. WILLIAM H. McGEE, MEMBER OF THE FIRM OF WILLIAM H. McGEE & CO., OF NEW YORK CITY.

Mr. MCGEE. My name is William H. McGee, and I am a member of the firm of William H. McGee & Co., of New York City, marine insurance agents, representing 12 American companies.

Mr. EDMONDS. Those are purely American companies, are they, Mr. McGee?

Mr. MCGEE. Purely American companies. We have one Scandanavian company, which is essentially a reinsurance company. All the others are purely American companies. We represent no foreign companies whatever, except, as I say, one reinsurance company.

Mr. CHINDBLOM. What company is that?

Mr. MCGEE. The Scandanavia, of Copenhagen. They are admitted to the State of New York and authorized to do business.

Mr. LAZARO. What do you mean by American companies—American men and capital?

Mr. MCGEE. I mean native American companies, incorporated and formed in the United States, managed in the United States, and owned there, and all of their capital here. Such companies as the St. Paul Fire & Marine Insurance Co., of St. Paul; the Providence & Washington Insurance Co., of Providence, incorporated in 1799, and the St. Paul in 1866; the Great American, of New York; the Phoenix, of Hartford; the Westchester, of New York; the Security, of New Haven, and the Camden, of Camden.

Mr. LEHLBACH. Are these companies simply marine companies?

Mr. McGee. No.

Mr. Lehlbach. Are they also fire insurance companies?

Mr. McGee. They are also fire as well as marine. I take it you are all very familiar with the subject of marine insurance and its very international character.

Mr. Edmonds. No; I do not want you to say that. We are only Members of Congress and we want you to tell us something about marine insurance.

Mr. Chindblom. Don't assume we know anything about it.

Mr. McGee. Good. Marine insurance is of a very international character; perhaps it is more international, or as international, as shipping itself. The marine underwriter is called upon at his desk in New York to entertain risks which sail to and from all parts of the world. The international character of marine insurance can best be illustrated by an experience that I had not long ago. One of our New York shippers came to me. He was making a shipment of goods from New York to Rio de Janerio. We had transacted his business for a good many years. He presented to me a letter from his consignee which instructed him to make the shipment from New York to Rio de Janerio and then it was going to Santa Cruz, I believe, and they had instructed him to not place the insurance, but to advise the facts of the shipment, the name of the steamer, the amount of the invoice, and the character of the goods, to an agent of a British insurance company located in Geneva, Switzerland. Now Mr. Merchant in Brazil had his policy of insurance with a British company, placed through an agency in Geneva, Switzerland. That would perhaps illustrate, in a way, the wideness of the international character of marine insurance and almost the impossibility of directing it or controlling it.

Marine insurance is a business which naturally seeks the lowest rate of premium, as an illustration of that kind would show, and it is almost impossible with all due deference to you, gentlemen, to undertake legislation which will confine it or dam it up in any one particular direction. That has been tried, and we have illustration of that in Argentine and Uruguay where marine insurance is a Government monopoly; and yet, as a matter of fact, perhaps not 2 per cent of the marine insurance in Argentine and Uruguay is controlled there. We in New York do a very large volume of business to and from Argentine and to and from Uruguay; and in the same way the markets of Europe do a tremendous lot of that business. The result is the native companies of Argentine and Uruguay get very little; they are small, unimportant companies and they are becoming less important.

Mr. Chindblom. Then, as a matter of fact, they are not attractive to the shippers?

Mr. McGee. Well, I have never been down there.

Mr. Chindblom. I mean the terms are not attractive.

Mr. McGee. Their terms are not attractive, and the matter which answers your question there is this, that where a Government monopoly of that kind is established it generally means a higher rate of premium and generally carries with it taxation which forces the local underwriter to charge such a high rate of premium that the business is forced to seek, and naturally seeks, the lowest level of rates. Just like water, the marine insurance business will find its natural level in the lowest rates of premium.

One more disability the American underwriters labor under, and I would include in that not only the native American companies but also thos of foreign companies which are admitted to do business here—one more handicap is that it is so easy for the insurance broker in New York, Philadelphia, Chicago, San Francisco, or New Orleans to send a cable to London and place his insurance there. Now it can be placed there easier and cheaper, purely because of the question of taxation. A London underwriter can take something like a 10 per cent less rate and have more money left in his pocket with which to pay losses and expenses than a New York underwriter can do, largely because of that question of taxation and the question of the higher cost of living in normal times, a higher standard of living perhaps, and a higher standard of office salaries and office expenses. An American underwriter's expense ratio is considerably higher than the expense ratio published by the various British companies. The British companies, as a rule, will show an expense ratio in their annual statements of something like two and one half to three, or thereabouts, of the average American marine insurance company. Acting on that same basis and taking expenses, as expenses exclusive of brokerages, which put in on exactly the same parity with the Britich company, the expenses of the American company will probably be five or six, and I think I am moderate in putting it at that figure.

Mr. Edmonds. Do the British companies pay the same brokerage as the American companies?

Mr. McGee. Yes; they do.

Mr. Edmonds. Here or in England, or both?

Mr. McGee. The British companies transacting business here adopt the American standards, of course. So to all intents and purposes they are on the same standard as an American company.

Mr. Edmonds. Does that in any way discriminate against the American companies getting business?

Mr. McGee. No.

Mr. Edmonds. If a shipper, say, some large shipper who has an office in both New York and London, should have a cargo from New York to London, could he insure that from London direct without going through a broker?

Mr. McGee. Yes; he could.

Mr. Edmonds. Would that be cheaper?

Mr. McGee. Not financially. But, as a matter of fact, the actual practice—I think companies generally are very apt, both American and foreign, to encourage direct dealings between the merchant and the company. We always like to have our personal trade and we always like to have our personal connections rather than to secure our business through boat brokers who are free lances and whose hand, as a matter of general business practice, is always against the underwriter.

Mr. Edmonds. Do the companies in that case collect a percentage of the premium?

Mr. McGee. In England the nominal allowances are 5 per cent brokerage, which is supposed to go to the broker, and then 10 per cent discount which is taken off after brokerage is calculated, which means that the 10 per cent is 9½ per cent to 14 per cent. Now, the discount is supposed to go to the merchant and the brokerage is sup-

posed to go to the broker. Now, if the merchant deals direct with his underwriter in England, he undoubtedly can get the 10 per cent and probably the 5.

Mr. EDMONDS. He would get the 5 by side agreement?

Mr. MCGEE. It is not blown from the house tops.

Mr. EDMONDS. No. But even if the large companies should happen to have a large number of steamers and have an insurance man in their employ, they would naturally pay no other brokerage charge

Mr. MCGEE. Yes; they would establish a marine insurance department.

Mr. EDMONDS. Yes. In other words, the broker has a hard time to get along, excepting on the ordinary every-day cargoes here and there.

Mr. MCGEE. No. As a rule, in England, I fancy the great bulk of business is conducted through brokers, just as the great bulk of it to-day is conducted through brokers in the United States; brokers or brokers' agents; that is to say, agents of the company who partake more of the character of a broker than they do of an agent. They are frequently licensed as agents of a company, as a matter of business convenience.

Mr. CHINDBLOM. When you speak of expense ratio, just what did you mean by that? You say 5 and 6.

Mr. MCGEE. I mean the expense of conducting business: administration expense exclusive of brokers.

Mr. CHINDBLOM. Five and six per cent of what?

Mr. MCGEE. Five and six per cent of the premium.

Mr. CHINDBLOM. Gross premium?

Mr. MCGEE. Gross premium—income.

Mr. EDMONDS. Is there a difference betwen the form of policy given by the English and other foreign companies, German and Scandinavian companies, and American companies, that would discriminate against American shipping?

Mr. MCGEE. Hardly. Of course, every country, every insurance market, has its own standard form of printed policy. The form of policy used by New York is the one that has been handed down from time out of mind. The standard New York form of policy has been changed very little in a very great many years, that is, the printed blank form which is used.

Speaking of hulls, American-owned hulls, American-built hulls, there is a standard form which the American underwriter has adopted after consultation with British underwriters. That was some 10 or 12 years ago. It was adopted as one means in checking competition and putting a stop to the introduction of clauses by brokers in printed forms. There was a time when every broker in New York and elsewhere in the country, as well as almost every broker in London had his own particular pet set of clauses which he printed up, and he would pin them on his application blank when he filed it with the company. And if the companies did not read them carefully, we would find, and did find to our sorrow and to our cost, that Mr. Broker, over night, very frequently, put in something new or dropped a word here and there. So we found ourselves let in for some pretty hard experiences which we had never anticipated. The business of marine insurance, as a rule, is done in such a rapid busi-

ness fashion that it is not possible, in a business sense, not practically possible, to scan and read the printed clauses which a broker pins on his application blank when he offers one insurance. We frequently have, in busy times, lines of 8 or 10 people awaiting their turn, and to scan a printed set of clauses is quite a job.

Mr. EDMONDS. Do you have inquiries from people to insure their cargoes in particular companies?

Mr. MCGEE. Frequently, yes.

Mr. EDMONDS. Do they designate foreign companies frequently?

Mr. MCGEE. Yes; they do. I would just like to finish that thought about the forms.

Mr. EDMONDS. Go ahead.

Mr. MCGEE. Otherwise, I will leave my remarks in the air. Ten or twelve years ago, there was a conference between the leading underwriters in London and the leading underwriters in New York, under which we agreed upon a standard form of policy which was to be used in the insurance of American hulls; and, in the absence of an express agreement to the contrary, that standard form is used. For that reason, the form which we use in New York and elsewhere in the United States is identical with the form used in England. So the quotation on American hulls is really on a parity so far as policy conditions are concerned.

Mr. CHINDBLOM. Right there, if I might interrupt you; do the English underwriters use different standard policies for English hulls than those used for American hulls?

Mr. MCGEE. There is quite a difference. As a matter of fact, it is not as favorable to the shipowner as the form of policy which is granted to the American shipowners.

Mr. CHINDBLOM. The form for English hulls is not as favorable?

Mr. MCGEE. Not as favorable for the English hulls.

Mr. EDMONDS. And yet through their companies they will take an American form of policy and underwrite it?

Mr. MCGEE. An Englishman will underwrite in New York or London just as freely as he will in Paris on the hull. And that is one of the great difficulties we labor under, of the fact that the British companies—and I am speaking of the British companies, because they are the great hull underwriters—a British company admitted to do business in New York, and that privilege carrying with it a certain measure of responsibility, will just as readily write an American risk in London as it will in New York. In fact, some of them go so far as to write no American hulls in the American market, but they write them entirely in the English market. The result of that is, and that is one of our handicaps, that the London underwriter has an advantage of anywhere of from 10 to 12 per cent or more in the rate. That arises through the difference of the expense ratio that I spoke of a moment ago and is due also to the difference in outgo in the way of commissions, because the British company, writing business in New York, must pay its New York representative—must either pay him a salary or pay him a commission.

Mr. CHINDBLOM. Does the American shipper get any advantage out of that?

Mr. MCGEE. Writing in London?

Mr. CHINDBLOM. Yes; on a policy written in Great Britain or in London?

Mr. McGee. Yes; he does, and he very frequently gets a lower rate of premium cost because the London underwriter can quote a lower rate of premium and still have a little the best of it.

Mr. Edmonds. Have you finished that line?

Mr. McGee. I think I have as far as hulls are concerned. You asked me a question; would you like to have me answer it now?

Mr. Edmonds. No; I will ask you that later on.

Mr. McGee. I said a little while ago that marine insurance was an international business, and, like the ocean, it can not be dammed up. You can dry it up in spots, but you can not dam it up successfully.

Cargo has been referred to, the insurance of merchandise, the shipment of goods. The international character of the marine insurance is, I think, exemplified there very clearly. To a shipping transaction there are always two ends. Sometimes there are intermediate stopping points. Mr. Merchant in Calcutta wants certain classes of goods. He sends an order to his London house, and the London house transmits that order to New York. Now, a commission merchant in New York, and perhaps a branch office of the London or Calcutta house, may execute that order. They buy the goods and they ship them. The New York office will inquire what the rates are in New York. Well, the rates in New York are thus and so. They cable to London the New York rates for insurance are so much. Now London or Calcutta may determine whether that insurance is placed in New York, London, Calcutta, or Shanghai, which is no uncommon thing. In other words, the shipper of the goods in New York, or elsewhere in the United States, has, in a very large number of cases, no voice whatever as to where that insurance will be placed. It is the man at the other end, the man who is buying the goods, the man who is going to pay for them who will dictate where the insurance will be placed. And therefore it is not possible for us to say "you must insure in New York," because the owner of the goods somewhere else says "I will insure where I please; I am the goods." Therefore he buys the goods on cost, insurance, and freight terms or f. o. b. terms.

Mr. Edmonds. Are most goods sold that way, f. o. b.?

Mr. McGee. It would be hard to answer that question. The fact that all marine underwriters in New York do a very large business on goods that are shipped to foreign countries all over the world is an indication that there is a very large amount of business done on the cost, insurance, and freight basis. Of course, in many cases the American shippers of goods are the people who are interested all the way through. They may have their branch house in London, Calcutta, Australia, or South America.

Mr. Edmonds. In that case, do they make inquiry along the line to see where they can get the cheapest insurance?

Mr. McGee. Very often. One large house I know of in New York has branches in London, and during prewar times they had a branch in Hamburg. They also had branches in South America on both the east and west coast, and they had some connections in Australia. That house was constantly shopping between all the markets in Europe. The head of that house at one time in an address he made before somebody (and he was dealing with the international character of the business generally; he was speaking not only of the insurance, but what we commonly mean when we say the commerce

of the country), took this illustration: His house in Shanghai, for instance—that is not a general coaling point, but his house on the west coast of South America—wanted to buy a cargo of coal, or a series of cargoes of coal, and South American brokers, New York, London, New Castle, and South Wales brokers were asked for quotations—what will you deliver coal of such and such a grade for—and there were three big, important buying markets. The next thing was, he telegraphed to London, and he inquired in New York, and he inquired in Hamburg, and he inquired in Copenhagen, and Christiania, and some other points, "Where can I hire a vessel cheapest?" So that the hiring of the ship was the next stage in it. The third thing was, he followed it up with the cost of marine insurance—what will be the rate to New York on cargoes for these destinations or shipping points, by approved vessels—"What will be the London rate; what is the Hamburg rate; what is the rate in Paris; what is the rate in Shanghai; what is the rate in Australia." So that in that one transaction they had gone all over the world for their cargo, for their ship, and for their insurance. Now, when it came down to a finality, the coal was bought in one place, in one country; the ship was chartered in a second, and the insurance was placed in some place entirely different.

Mr. EDMONDS. The cost of insurance is, then, a vital matter of establishing a price at the delivered point?

Mr. MCGEE. Yes, sir. The cost of insurance is, in a great many transactions particularly large ones. And even the small shipper looks sometimes to the pennies very closely when he is dealing with the insurance question, and therefore anything which goes to make up the cost of the insurance rate is vital not only to the merchant who wants to insure but to the insurance company who must quote its rate and who must calculate these various additions, these various things which go to make up the cost to them.

Mr. EDMONDS. While you are talking on cargo insurance, tell us something about how these large companies that are buying goods and have been buying goods in this country, are operating in regard to their insurance, like the American Sugar Refining Co. which is doing a large export and import business, and Williams & Sons of New York, and the Eastern Export Co., and all those big companies that are forming now?

Mr. MCGEE. In the case of the American Sugar Refining Co., I think that business as far as the American business is concerned, for one reason or another, has almost altogether, and for a great many years, and from as far back as I can remember, and I can remember a long way, the American sugar business has been placed with the American companies, the big sugar business.

Mr. EDMONDS. How has that been placed? Have they their own insurance department and do it themselves?

Mr. MCGEE. No; they have their own insurance department. The American Sugar Refining Co. is a big organization and, like other big organizations, they departmentalize the various parts of their business. They have an insurance department, and they have always had a capable man managing it, but their business is placed by a New York firm of brokers and has been very largely placed with American companies. And when you speak of sugar business, I think you

pick out the one exception of that sort. That is a big organization which has stuck to American companies.

There are other large sugar importers in New York, quite a group of them—in prewar times there were quite a group of them but of course they have all died out or stopped doing business during war times—who placed their entire business with English companies. I mean Lloyds. And it was placed in the English market and it was done entirely on the question of rates. The American underwriters, I think—I know—keep much better statistics of the individual lines of business than the average run of foreign companies. Lloyds, I think, keep little or no statistics, no figures of any kind. A great deal of business, you might say, is done in the hat so far as Lloyds underwriters are concerned. And, therefore, if the business is being carried on at less than cost it would very quickly show up on the records of the American marine insurance companies. If the business of one particular shipper shows up at a loss, we know it, and we are in position to apply the remedies. But Lloyds underwriters look upon a broker's account as a whole and a business which is a heavy loss making business can be placed in Lloyds and be continued in Lloyds for a very long time without any one being any the wiser; so long as Mr. Broker's total gross business of all kinds and of every character hides it, it can go on. So that this particular class of sugar business, as I say, that has been placed in foreign countries has been placed there because American underwriters did not care to face an absolute out-of-pocket loss, merely for the pleasure of doing business with their next-door neighbor.

Mr. KINCHELOE. What did you call that—The American Sugar Refining Co.?

Mr. MCGEE. The American Sugar Refining Co.

Mr. KINCHELOE. Why, in your opinion have they done business exclusively with American companies to the exclusion of all others? Do you think it is because they got it cheaper, or was there some other reason?

Mr. MCGEE. No; I think there were probably other perfectly good reasons. I think in some cases they may have had some personal interest in the underwriters with whom they placed their business.

Mr. KINCHELOE. Do you think they got it as cheap as they could have gotten it in foreign companies?

Mr. MCGEE. Oh, on the whole, I think so.

Mr. KINCHELOE. Why did you think any other reason prompted them, then?

Mr. MCGEE. Sir?

Mr. KINCHELOE. Why would any other reason prompt them to patronize exclusive American companies if they got it just as cheap? Why would not that be the natural thing for them to do?

Mr. MCGEE. I think it is the natural thing, but it is just this: Cheapness is a relative term, and a great many merchants prefer to pay just a little bit more in the way of the rate for the purpose of having their insurance placed with somebody they can go in and talk to and with whom they can argue if things are not going just right without taking into consideration the fact that if they have a lawsuit they would much rather have to sue somebody in their

home town, city, or State, in the same country with them, than to have to go to a foreign country.

Mr. KINCHELOE. But you do really think that these people got their insurance just as cheap as they could have in foreign countries?

Mr. MCGEE. Well, I would answer that both yes and no. If the companies were all of equal rank, and sticking to companies rather than to individual underwriters, I think there is little doubt but that they got, on the whole, just as cheap insurance. In some cases it might be more and in some cases less; but, taking it as a whole, their premium outgo for the year would probably be very little different in placing insurance with American companies than if they placed with foreign companies of the same grade.

Mr. KINCHELOE. Do American companies of the same grade write just as cheap as foreign companies? Is that true?

Mr. MCGEE. No; it is not true.

Mr. EDMONDS. Mr. Kincheloe was not here when you made your remarks.

Mr. KINCHELOE. No; if that is already in the record, go ahead with your argument.

Mr. CHINDBLOM. Would there be any advantage in the adjustment of losses, in placing insurance with American companies as against foreign companies?

Mr. MCGEE. The advantage in the adjustment of losses is that if you can go into a man's office and talk to him about your loss and tell him about this thing and he sees the paper is not just exactly correctly expressed, and anyhow you have been doing business with him for a long time, and he ought not to look too closely to minor technicalities, why, you get your loss settlement a great deal quicker, and more friendly and more advantageously when dealing with somebody you can go in and talk to than when transmitting papers to some foreign company, and those papers having to go to Mr. Claim Settler in a foreign country, and after he has a pretty bad night of it and a sour morning, why, he is apt to throw your papers aside. Now, if you will go to your next-door neighbor, the insurance broker in your town, you can see if he is happy or not; and if he is not happy you do not talk to him about your loss but you talk to him about something he is interested in.

Mr. CHINDBLOM. Is there any difference in the formalities in presenting claims?

Mr. MCGEE. Yes; there is a difference—there is a difference in that way. The great practice in England is—and I think that is true in most other countries—that claims are presented formally through papers. That is true in the United States. If you have a claim, you present to the underwriter certain papers, to show evidence of shipment of the goods, evidence of conditions by which they were delivered, and evidence of the fact that they have been lost by some peril of the sea.

Mr. KINCHELOE. Now, if you will excuse me there, that is exactly where my mind was running. I can see a great deal of force in what you say, that a business man likes to deal with a company where, if there is any loss or dispute, he can go in their office and talk to them about it, and if he has to sue, to be able to sue in his own country. Now, in view of that advantage in the American marine insurance business, why is it they can not compete and really handle all of the

marine insurance business, if they are able to do it, over the foreign man?

Mr. McGee. Because a great deal of our business, in a great many instances, is transacted with companies in foreign countries. And we have that condition to-day ourselves to some extent. It is transacted with people who know nothing about the particular business and nothing about the cost of it and who will have to wait until after it is over until they know the cost price of the thing that is sold. That is always one of the difficulties of the marine insurance business. In the very nature of things we are selling insurance in advance of a knowledge of what the cost price of that business is going to be and, in a great many instances, even over a considerable period of time. I do not like to use the term luck, but yet luck is a thing all of us must to an extent recognize. Call it by other names, but after all it is that old factor of luck. One insurance company may insure shippers of grain regularly from New York to Liverpool and they have done that business for 20 years, and just the way it happened to run with them they may have had little or nothing in the way of losses.

Another insurance company insuring other shippers, frequently by the same vessels but, of course, very largely by other vessels, although other vessels of an equal class, its experience may have run to loss after loss. There was no difference in judgment in the two underwriters but just the way things sometimes run. So that the cost of that insurance to one underwriter is one thing and the cost to the other man is another—it is very low. Now you take a foreign underwriter, who is not located here, who is not familiar with the hazards, not familiar with the conditions, and who on top of that escapes the taxes and expenses which the company located in the United States must bear, that foreigner, on a great many classes of business, does write a great deal cheaper in a great many cases than we can or will, and there is a great deal of saying "let him have it; if that is his price, why, the more he has of it, the quicker he will find out what his cost is."

Mr. Kincheloe. Does not that uncertainty of rates exist just the same with the domestic companies as it does with the foreign companies?

Mr. McGee. No; because the American business, the American underwriters, supposedly and as a matter of fact, are familiar with it. We know our local hazards; we know what a shipment going up the Mississippi River means. If you take, for instance, a shipment coming from some foreign country to New Orleans and then going by river steamer up the Mississippi River, the American marine insurance underwriters have been familiar with that business for a good many years—ever since it was a business. And when the packets were going up the river, we knew in a great many directions the cost of that business meant we had to charge a rate of 2 per cent or 3 per cent or some other such figure. And the underwriter in a foreign country does not know anything about it. He looks on a map and says "It is a river; it is not far up there; that is not any more than an eighth of an inch up there and I guess an eighth extra will do for that," or he will do it without any extra charge.

Now, the American underwriter knows his business; he sells his insurance at a fair price considering what he knows about the cost of it, but the underwriter in some foreign country who knows noth-

ing about that merely guesses at it and he may guess way wide and divert a very big business to his foreign market and keep it there for a considerable length of time.

Mr. KINCHELOE. Now, do I understand from that statement that their lack of knowledge of that fact is the main reason why the foreign companies are cheaper than every other American company on the same line of risks?

Mr. MCGEE. That is one reason, lack of knowledge; and also the difference in the expense of doing business. An American underwriter must pay taxes. We pay taxes and license fees and so on and so we have to add that. An underwriter in a foreign country escapes all of this. I said, I think before you came in, that on the general average, the general run of business the underwriter in London, a Lloyds underwriter, can insure a New York merchant at a rate of premium at something like 15 per cent less than the New York underwriter and still have more money left in his pocket with which to pay losses and expenses. Taxes make for that, and the difference in the cost of administration makes for that.

Mr. EDMONDS. These are Government taxes or State taxes that you are talking about?

Mr. MCGEE. Both. The New York State tax or, rather, the State of Texas tax—the tax in some States will average close on to 4 per cent. You take Texas, for instance, the tax and local license fees and out-of-pocket expenses which go from the insurance company to the Government, and a set of taxes to the municipalities in the State of Texas, and it will bring that tax rate up close to 4 per cent. In fact, in our office we had figured it on one occasion, within two years, that our outgo was over 4½ per cent on the business we transacted in the State of Texas.

Mr. EDMONDS. Is that true in New York?

Mr. MCGEE. The New York tax, the State tax, is somewhere around 2 per cent.

Mr. EDMONDS. Is that less than Texas?

Mr. MCGEE. That is less than Texas. New York State is about 2 per cent and Texas is about 4 or 4½ per cent.

Mr. EDMONDS. New York is the most liberal of all in these charges, isn't it?

Mr. MCGEE. I should say that it is as liberal as any. I think New Jersey has a little advantage. I think there is a little advantage in New Jersey, but I am not sure of that.

Mr. EDMONDS. How is it as to Pennsylvania's tax?

Mr. MCGEE. My recollection is that it is about the same as New York. I think New York, Pennsylvania, and Massachusetts, which are the three big States for insurance business, they are pretty closely alike.

Mr. CHINDBLOM. Do you happen to recall anything about Illinois?

Mr. MCGEE. I do not. But my impression is (I may be wrong in this, but it was either Illinois or Ohio) it has gone so far on the question of taxes, in comparatively a short time, that it has tried to make marine insurance companies pay a fire marshal tax—that is, a tax which was raised to support the fire marshal of the State who dealt purely with fire-insurance questions.

Mr. KINCHELOE. What would be your remedy to equalize the overhead charges of these companies so that American companies could compete with them?

Mr. MCGEE. As we see it, the great evil of our business, the great evil of the competitive feature of our business, is the great facility with which marine insurance may be exported from the country by insurance brokers and escape taxes and other onerous features. Three or four years ago I encountered one insurance broker in New York City (who was a lazy wretch, but who did quite a business), and I spoke to him about coming into our office once in a while. He said "It is so much easier for me to let somebody else do the work, so that when I have any marine-insurance orders, I just draw up a cablegram and cable to London and let the London broker do all the work." He said, "Of course, I only get about two-thirds of the commission, but look at the expense I save; look at the trouble I save."

Mr. EDMONDS. He has the same brokerage tax to pay that you have, hasn't he?

Mr. MCGEE. No, sir. Brokers are not taxed. Insurance companies are.

Mr. EDMONDS. Do foreign insurance companies do business in New York without tax?

Mr. MCGEE. No, sir. Foreign insurance companies which are permitted to do business in New York pay substantially the same tax as the native companies. But if an insurance broker sends an order to London and the insurance is placed in London—I keep saying London all the time, because, after all, London is the great marine-insurance market of the world; I do not mean anything invidious; I speak of that as a big market—the insurance broker cables the order to London and the insurance company in London accepts it. It pays no tax at all in the United States unless something in the nature of a policy is sent back to the United States, in which case, under the income-tax law, there is a provision that policies of that sort pay, I think, a 3 per cent tax. And American marine insurance company pays a Federal tax of 1 per cent on the premiums. It is supposed to be a stamp tax, but the stamp feature is not practical, so we pay on a monthly statement rendered the internal revenue collector. We pay 1 per cent. It is more than 1 per cent; it is 1 cent on each dollar or fraction, so that it is more than 1 per cent. But we pay that tax. Now, if a policy came from a foreign country to the United States, that is supposed to pay a tax of 3 per cent; but if no such policy ever comes into this country and there is no very great reason why it should, it pays no tax at all.

Mr. CHINDBLOM. To go to another subject: How do American companies compare with foreign companies in the matter of net earnings upon the capital invested? Is their experience the same, and is there attitude the same?

Mr. MCGEE. Well, by and large, I should say that the American companies, while they do very well, the American marine insurance companies have never shown the great profits the British marine insurance companies have shown. By no means. There is a big difference.

Mr. CHINDBLOM. Upon the capital invested?

Mr. MCGEE. Upon the capital invested. Of course there you have a different feature. It is a very common practice, almost the uni-

versal practice, in foreign countries to have a subscribed capital upon which they do their trading, and then they pay up varying percentages of it. I do not know whether there is any law governing the proportion of paid-up capital to subscribed capital in England, but it is no uncommon thing to see figures of subscribed capital of £1,000,000 and paid-up capital of £100,000—something of that kind. Those are not the precise figures. There have been a large number of companies, newly organized, in England during the last three or four years, with a subscribed capital of 3,000 or 4,000 pounds sterling, and paid-up capital of £80,000, and in some cases as low as 10,000. So they trade on an artificial capital. The American insurance company must pay up every dollar of its capital; but you will find in continental insurance companies—it was true of Germany before the war, and it is to-day true of companies in Norway, in Sweden and Christiana, you will see it in the statements which they publish their profits are figured, sometimes when they state what percentage of profits they make, they frequently base it on their subscribed capital, which, of course, minimizes the percentage.

Mr. EDMONDS. Are there any terms in the American policies that are different from the English policies?

Mr. MCGEE. The American cargo policy is a different one in its general text from the British policy. There are a great many things that the American must put in his policy because he has no laws which guide him. England has a code enacted during the time of King Edward, and therefore an Englishman does not have to say as much in his policy as we do. Another thing, frequently the American courts interpret language differently from the British courts, so that it is necessary for the American to express himself pretty carefully at times and to put it into the policy. A great deal of the English law is comprehended in the code. If there is nothing said about it they turn to the code and the code says thus and so.

Mr. EDMONDS. Is that code published?

Mr. MCGEE. Yes, sir.

Mr. EDMONDS. Could you put it in the hearings as a part of your testimony?

Mr. MCGEE. I have no doubt but that I could obtain a copy of it and send it to you.

Mr. EDMONDS. I would be very glad, indeed, if you would so we could look that over.

Mr. MCGEE. It is called the Marine Insurance Code, and it is public property.

Mr. EDMONDS. Dr. Huebner says he will give us a copy of it, so you need not mind.

The newspapers up East here a short time ago were talking about a clause called the deviation clause in American policies that was very detrimental to our shippers. Is that true?

Mr. MCGEE. No, sir. There is such a clause, but we in the insurance business think it is pretty much of a burden on us at times. The deviation clause means this, and the reason for the reference to that clause in the policies of insurance, I will give you. The deviation clause reads:

> This policy shall not be vitiated by any unintentional error in description of voyage or insurance, provided the same be communicated to the insurer as soon as known to the insured, and an additional premium paid if required.

I think I have quoted it quite correctly.

Mr. EDMONDS. They seem to find fault with the additional premium more than anything else.

Mr. MCGEE. I will explain that to you. It means this, and its language shows pretty clearly what it means—it means that if a man has made an honest error in describing the name of the vessel (and sometimes it is difficult to get the name of the vessel quite correctly), or if he has made some unintentional error in the description of the voyage or misdescribed the goods that he has insured, it shall not be held against him and he has a chance to rectify it. Now, that clause has been referred to in the newspapers recently in this connection; it brings in what might be called the abandonment of a voyage or a prolonged delay. The situation which called forth that newspaper discussion was this: There was a strike in the River Plata, both at Buenos Aires and Montevideo. Steamers were sailing from New York and elsewhere to Buenos Aires particularly, and steamers were arriving there with no means of discharging their cargo, and the vessels would lay out in the stream. Somebody hit upon the device of taking that steamer to Montevideo or some other point in Uruguay, which was not then affected by the strike, and discharging the cargo on the dock, dumping it there, and notifying the consignees of the goods, however, where the goods were. Now, the carrier—I do not know how extensively it was done, but I know in a great many cases it was done—did not consider his duty ended there, but he hired a lighter or local steamer or something else on which the service was running, and he would bring those goods back to Buenos Aires and have a discharge. Now, there was an extension of the underwriter's liability, in some cases as long as 60 or 90 days. The deviation clause protected the merchant, but the merchant was remiss in his duty to the underwriter in not informing the underwriter of the fact and paying an additional premium for that increased hazard which the underwriter was entitled to if he chose to ask for it.

Mr. EDMONDS. Do the English companies ask for that or just the American companies?

Mr. MCGEE. Oh, no; that is a world-wide condition.

Mr. EDMONDS. That is a world-wide condition?

Mr. MCGEE. That is a world-wide condition.

Mr. EDMONDS. I understand that some ships were wirelessed to go into Sao Paulo, or Rio de Janeiro, instead of going down to Buenos Aires, during this strike. They say that then the insurance companies charged an extra premium. Is that true?

Mr. MCGEE. That is true, probably. I do not know; I have not any illustrations of that kind in mind. I have no particular experiences.

Mr. EDMONDS. Would that be a fair thing to do?

Mr. MCGEE. Yes.

Mr. EDMONDS. Here is a ship taking a shorter voyage.

Mr. MCGEE. Oh, you mean if the goods were discharged there and the voyage ended there.

Mr. EDMONDS. The voyage ended there.

Mr. MCGEE. No; they would not charge an extra rate for that; I think they would charge a lower rate.

Mr. EDMONDS. I think the charge was made in the newspapers that in the case of a cargo of coal, say, after it was on the way down, they found some other customer for it at some other point and in making that change in the policy there was a charge made for it.

Mr. MCGEE. I should say as a matter of general practice, no; because it is a much shorter voyage. The underwriter's risk is terminated sooner, and as a matter of standard of rates, the general market rates to Rio and Santos and Sao Paulo are lower than the rate to Buenos Aires, Rosario, or any of those places, or Montevideo.

Mr. EDMONDS. Then it would be only when there was an extra service that an extra charge would be made under the deviation clause?

Mr. MCGEE. Only in the case where there was an extra service. The voyage from New York to Buenos Aires—there are some of the ships that will make it in 23 days but as a rule it is something like a month. Now, we make a rate—the marine insurance rates are not based upon the time consumed, but they are generally based on the hazards encountered. But, of course, the element of time does enter into it to some degree. But the rate to the River Plata is always higher than the rate to Rio de Jeneiro. I think as a general thing we would rather have a ship going into Rio de Janeiro than we would going into the Argentine. And if there has been such a case as the newspapers cite there must be some explainable reason. The voyage from New York to the River Plata is a matter of 30 days. If that cargo is discharged at some intermediate point, and they put it on the open dock, subjecting it to exposure and subjecting it to damage by rain and subjecting it to all sorts of things and it is kept there for an extra month, or an extra two months, or an extra three months, it would seem the underwriters are fairly entitled to remuneration for the increased insurance hazard. And even there the experience I have had in New York would indicate that the underwriters have dealt very leniently with that. They have been very apt to be governed by the position in which the particular merchant found himself. If the merchant did not have much of an extra risk and he had collected his money for his invoice, and he was going to be seriously out of pocket, I think the general run of merchants have been very apt to find that the general run of underwriters have treated them fairly and very liberally.

Of course, we have this factor; it is the factor of the human equation and I think the underwriter is a very human being. If he has had a merchant who has come in and ground him down to the last nickel on his rate of premium, has squeezed him, and the underwriter has felt the liability, and Mr. Merchant comes in with a situation of that kind, I think the underwriter might be quite human and say: "You will pay me now what you would not pay before." I have no illustrations of that kind, but I think we are dealing with the question of the human equation and you must look at it in that way when you are dealing with newspaper stories and things of that kind.

Mr. EDMONDS. In the settlement of losses on cargoes, damaged cargoes, are the English companies as lenient as the American companies? Take two damaged cargoes in New York, one insured in a London company, or a foreign company, and another insured in an American company.

Mr. McGee. The method of adjusting losses has, in the course of time, developed itself into something like a well-established set of rules which are applied the world over. The question of leniency only comes into play when the man's claim does not measure up to the regular rules. If I may illustrate that, you have a shipment of goods that has arrived at its destination in a damaged condition. The merchant the world over, whether it is Shanghai, New York, London, or Buenos Aires, immediately calls in a representative of the underwriters. And the underwriters have representatives for claims settling purposes the world over. Our own office has what we call average agents practically at every port in the world, and at more than half of the big commercial cities of the world, practically all the commercial cities. So that Mr. Merchant calls in the average agents.

Mr. Chindblom. Right there, if I may interrupt: Are the American companies as well equipped in that regard, in the matter of adjustments elsewhere than at home, as the foreign companies?

Mr. McGee. Quite as well equipped.

Mr. Edmonds. The same adjuster acts for both American and foreign companies, doesn't he?

Mr. McGee. Frequently the same adjuster.

Mr. Edmonds. He is simply in that line of business and gets paid for his services?

Mr. McGee. He gets paid for his services.

Mr. Edmonds. And the Lloyds people would use the same man ordinarily that you would use?

Mr. McGee. We do not ordinarily use a Lloyds man. Lloyds agents are frequently used in that way, but there is a distinction between a Lloyds underwriter and an English company's underwriter in England or elsewhere. While the Lloyds agents are frequently used by the companies as well as by Lloyds, as a rule we are very apt to use others. But we establish them. For instance, our own companies in Australia, New Zealand, in India, China, and Japan—I say our companies I mean those I represent—have probably 40 or 50 claims agents in those countries. And in nearly every case they are officials of the local companies, local insurance companies, and in many cases those local insurance companies are, after all, really English companies.

Mr. Lehlbach. Mr. McGee, in the companies which you represent, from what source do they obtain the information upon which they base the rate when an application for insurance is made?

Mr. McGee. May I go back and finish just this one other thought? Because I have left this one in the air, too.

Mr. Lehlbach. In your own time, when you deal with it, will you come to that?

Mr. McGee. I will come to that. Now, continuing the answer of the question you asked me, and that is the difference in the manner of settling losses, is the English underwriter or any foreign underwriter more lenient than an American underwriter, I would say no. The method in which a loss is adjusted is this: When the goods arrive at their destination the average commissioner is called in and he and the consignee of the goods discuss it. Mr. Consignee says "These goods are damaged 50 per cent," but Mr. Appraiser says "No; they are damaged only 25 per cent." You see they fix percentages. If they can not agree on the percentages there are various

courses adopted by which the percentage of that loss is established in some official manner. It may go so far as a public sale at auction. The sound market value of those goods is compared with the damaged market value. That establishes a percentage. That percentage is applied to the sum insured. So that if, as is very commonly done, the goods are insured for more than what they cost at the original point of destination, the merchant collects his percentage on the insured value. Now, that is world-wide; so that as far as that is concerned, the question of leniency does not enter into it at all. The only point where anything in the nature of leniency can come in is where that loss does not reach the required percentage. And the percentage is almost invariably fixed in the policy. That is to say, 5 per cent is a common per cent fixed, meaning free of particular average under 5 per cent; meaning that if the goods sustain a damage of less than 5 per cent the underwriter is not responsible for the loss. If it runs 5 per cent or anything above that, the underwriter pays what that loss is.

Mr. EDMONDS. That is a world-wide custom?

Mr. MCGEE. That is a world-wide custom. And the reason for that is to shut out the average normal trade loss. In package goods there is always a certain measure of damages from the water and on the platform; they get soiled.

Mr. EDMONDS. Is that percentage used by any of the foreign companies?

Mr. MCGEE. It is a very common thing. It is a common thing to use 3 per cent particular average in England and it is a common thing here. So, as far as that particular feature is concerned, I should say the world is on a parity. The only point where anything in the nature of liberality would come in is where that loss does not reach that percentage and in that respect, too, I think, the American companies are quite as libreal as the foreign companies. I know in our own experience if we would only pay the losses for which we were by contract liable we would reduce our rates very materially and make more money. But there is that broad liberality in the adjustment of all marine losses and the handling of them, that if a loss comes pretty nearly reaching 5 per cent or 3 per cent, or whatever it may be, we pay it. Everybody does.

Mr. CHINDBLOM. As a matter of insurance, is there an arbitration clause in these policies,

Mr. MCGEE. No; it has never been in the marine policy. The principle of arbitration does come into play very frequently; yet, it is not expressed in the policy. If you were to attempt to do that, it would be a tremendous task, to put in anything in the nature of an arbitration clause, because the marine insurance document is a world-wide document. The policy which we or any other American insurance company may issue in New York, accompanies the goods; it goes out with the invoice and the bills of lading.

Mr. CHINDBLOM. That is universal?

Mr. MCGEE. That is universal. Our losses are settled—we not only adjust losses but we literally pay them all over the world. We may not know anything about it until the documents come back to New York, when a bank draft is issued paying it. So that if anything of that kind is attempted, it would have to be mighty elaborate, because my impression is the English law and usage on the question of arbi-

tration would have to be expressed in some peculiar manner. In other words, an arbitration clause which would work in New York would not gee one bit with somewhere else.

Mr. LEHLBACH. As a matter of fact, the only recourse, where an insurance adjustment by agreement is not had, is to sue in the court?

Mr. MCGEE. Yes; that is true the world over, like any other transaction.

Mr. LEHLBACH. I say that is universal?

Mr. MCGEE. If two parties can not agree it is very common to refer them to arbitration voluntarily and if they can not agree then it is a question for the courts. Now, there again, I think, the American policy is quite as liberal and the American underwriter in his practice is quite as liberal as anywhere else; because in the very documents we issue—we do not issue policies generally—generally what is known as a short form certificate of insurance is issued, and that certificate is a short form of policy because it sums it all up by saying: "The claim shall be adjusted at the port of destination," according to the usage of Lloyds or the usages of the port of Hamburg, or whatever it may be. In other words, we put ourselves into the local courts.

Mr. KINCHELOE. Did I understand you to say that if the cargo was insured for more than it was worth and there was a total loss that you paid only the actual value of the cargo?

Mr. MCGEE. No, sir.

Mr. KINCHELOE. Do you pay the full value?

Mr. MCGEE. Yes; in the absence of fraud. Or let me say this: In the vast majority of the marine insurance transactions the principle of the valued policy is followed. In other words, we agree what the value of the goods is. Now, in the absence of fraud, that stands, even though there may be some exaggeration, or some exaggeration in the amount of insurance.

Mr. KINCHELOE. And that is adjusted on the amount of the policy, at its destination or wherever it is lost?

Mr. MCGEE. No. In the case of a damage——

Mr. KINCHELOE. I am talking about a total loss.

Mr. MCGEE. In the case of a total loss, of a clean-cut total loss without any salvage, we pay the face of the policy in the absence of fraud.

Mr. KINCHELOE. But in the case of damage to the goods, that damage is adjusted on the price of the goods, what they are worth at their destination, or where they started?

Mr. MCGEE. At the destination. The percentage of damage is arrived at by a comparison of the sound market value, sound wholesale market value, as compared with the damaged wholesale market value.

Mr. KINCHELOE. At destination?

Mr. MCGEE. At destination. The agent places a percentage, which is applied to the sum insured.

Mr. KINCHELOE. Let me ask you a question about overhead charges being greater for the domestic than for the foreign company. One item of charges, you say, is the Federal tax, called a stamp tax. When was that tax put on—in the last revenue bill that passed Congress?

Mr. MCGEE. No; it was first applied back at the time of the Spanish war. That is when it was first provided for.

Mr. KINCHELOE. Do you mean that you have been paying that tax ever since?

Mr. MCGEE. It was repealed, and then back in 1915, or 1916, when the emergency war-revenue bill was passed, that was practically reenacted and then again reenacted in the present income tax.

Mr. KINCHELOE. Yes. Now, do not the insurance companies of England and the war-striken countries over there, all of them as a matter of fact, pay some kind of a tax?

Mr. MCGEE. They pay no tax on premiums. They pay a tax on profits. I say in England; they may pay a tax in other countries.

Mr. KINCHELOE. In England, for example, they do?

Mr. MCGEE. Yes.

Mr. KINCHELOE. But their sum total war taxes there on their business is not as great as it is in America?

Mr. MCGEE. I could not answer that with accuracy. But if you take their war tax, and take our own profits tax and excess-profit tax, I think the American companies have much the worst of it.

Mr. KINCHELOE. I imagined they would pay an excess-profits tax more than you would.

Mr. MCGEE. They pay an excess-profits tax on profits only; but you see, as I understand it—that is one feature of the business I do not come directly in contact with—that is a process of working it out on the books. As I understand it, the American marine insurance tax, we practically pay three taxes to the Federal Government—the Federal tax, the income tax, and the excess-profits tax.

Mr. KINCHELOE. I was not as much interested in the details of the tax as I was to arrive at the fact. I can not see why there should be any difference in the rates charged by any insurance company, except because of the overhead charges of one exceeding those of another.

Mr. MCGEE. That is just exactly it; it is overhead charges.

Mr. KINCHELOE. Because if they are operating in the same field the hazard is just the same, the percentage?

Mr. MCGEE. Yes, that is true. But of course you have to take into account the question of experience. You take two underwriters both of equal intelligence, both of the same experience, and both with the same knowledge of the business, one in England and one in New York: The English underwriter can quote a lower rate of premium by reason of his lower overhead charges than the American underwriter, and the Englishman still have a little more money right in his pocket with which to pay losses and to get a profit.

Mr. KINCHELOE. Of course, that is true of the overhead charges are greater in America than in England.

Mr. MCGEE. That is it.

Mr. KINCHELOE. I say in the last analysis, I can not see where there would be any difference, with the same experience, of course, and in the same field and assuming the same hazard, except the difference in the overhead charges—that is, I can not see any legitimate reason.

Mr. MCGEE. Of course, there is very often a very great difference in two risks which look just alike. At the same time, that still leaves this—by that, I mean——

Mr. KINCHELOE. That would strike an average, wouldn't it, of the same thing in the course of business?

Mr. McGee. It would in time; yes, strike an average.

Mr. Chindblom. Are license fees anything of a factor?

Mr. McGee. In some States, yes. Not in such States as New York, Massachusetts, Pennsylvania, and I think, Illinois. I think the fees——

Mr. Edmonds. Is there any competition between the American companies as to rates?

Mr. McGee. Oh, yes. In the present condition of affairs we have competition between experience and ignorance.

Mr. Edmonds. You mean between the Government and the underwriters?

Mr. McGee. No; I mean in market conditions.

Mr. Edmonds. In other words, can a man take a policy to an underwriter, or to a company, and get it at a lower rate than he can with another company?

Mr. McGee. To-day in New York; yes, sir. That is due as I say, to the competition between experience and ignorance. And by that I mean this, that at the end of December, 1909, in New York State, there were just 26 marine insurance offices, including one or two that had more than one company. To-day there are something like 150 or 160.

Mr. Edmonds. What do you mean by marine insurance companies? They are not companies; they are agencies.

Mr. McGee. It may be a company's office, or it may be an agent's office. I mean the market capacity. There were 26 places to which a man could go to place his marine insurance in 1909. No; I am in error on that; it was 13. In 1909, there were 13 places to which a man could go to place marine insurance in New York.

Mr. Kinchelge. Were they all American companies?

Mr. McGee. No; American and all kinds. In 1910, the law of the State of New York was changed so as to admit companies that were previously barred. It was the practice of the State of New York not to permit a company to do more than one class of business; that is to say, a fire company could not be admitted to do a marine insurance business and a marine company could not be admitted to do a fire insurance business. There were a limited number of companies that had been established in New York for a good many years, prior to the enactment of that law, which was originally not a law but a rule of practice, under the régime, I think, of the superintendent or commissioner of insurance, Mr. McCall. He established a rule that a company ought not to expose its capital to more than one line of business. That was subsequently enacted into law. Now, as of January 1, 1910, that law was repealed, and the companies were admitted then to do both lines of business if they had a sufficient amount of capital. In 1910 there were 13 new companies, so then there were 26 companies.

The war produced a situation, and the large amount of business arising from the huge war premiums, they were large in size and therefore attracted a lot of capital, so that to-day I think we have something like 160 to 175 individual insurance companies doing business in New York. Now, it takes a long time to train a marine underwriter. There is no royal road to education in marine insurance. They have to serve an apprenticeship from the ground up, because they must learn by experience and experience only. And there has

been a great demand for marine underwriters, and the supply was lacking, and therefore there have been gentlemen previously engaged in various lines of business who have just taken up marine underwriting during the past three or four years. And that is what I mean when I say it is competition between experience and ignorance that is to-day producing a very large difference in the rates. And then there have been a very great many companies that have been established during the war time that got the taste of a big premium income—and a big loss outgo with it—but they got the taste of big figures and now they are trying to keep their average income up to the income that they established in war times. Therefore there is a great deal of competition which can only have one end. You can not sell insurance for less than cost any more than you can sell anything else. And the man who is selling his insurance for less than cost, it means the same, and that any other man in any other business comes to when he sells for less than cost.

Mr. EDMONDS. There is a competition between the companies, though, for the business?

Mr. MCGEE. There is.

Mr. EDMONDS. And there is a place for the broker now.

Mr. MCGEE. Well, I do not know about the broker. There are so many of them; the new broker would have a hard time now in New York unless he had friends on both sides of the table.

Mr. EDMONDS. Is that competition true all over the country?

Mr. MCGEE. All over the country; yes.

Mr. EDMONDS. Of course it will simmer down to some sort of a basis after a while.

Mr. MCGEE. After a while; yes.

Mr. LEHLBACH. To what degree would the present existing American marine insurance companies be able to absorb the entire underwriting business on American cargoes and their bottoms?

Mr. MCGEE. Business begets capacity. Where there is business to be placed the market will be found. To take a concrete example, the American hull business, until very recent times, it has been a negligible thing. To successfully transact marine insurance business an underwriter must have a volume of spread; he must have his liabilities spread over a wide surface. For that reason, back of 1910, it was a difficult thing for the American shipowners to place more than 10 or 15 per cent of his value, the value of his vessel, in the American market; and that was a fact in not only the native American companies but companies of foreign origin. He could place only a small proportion of his value because there was not enough business for any one underwriter to hazard any very large sum on any particular risk.

Now, as the number of American hulls grow and has grown and as the values grow and have grown, the capacity is widened. In 1910, my own company, one of my companies, one then doing that class of business, and then a prominent company, had fixed what it called the retained line; that is, an amount it would carry at its own risk, at something like $3,000. We did not have enough of this kind of risks to warrant our hazarding any more money than that on any one particular vessel. That same company to-day, due to the increase of the value of the property in vessels, the individual vessels, due to the very large increase in the number of vessels to-day, we

will take $20,000 on exactly the same vessel. The entire capacity of my own companies (and I speak of my own companies, because it is a concerete example) on an American hull in 1910 was a matter of $7,000 or $8,000. If a broker comes to me to-day with a risk I like the looks of I will take $100,000. Now, in that same proportion the capacity of the market has grown and the number of companies has grown. On a real good vessel, of a real good character, I have not the slightest doubt but that you could place in the New York market to-day something like $1,000,000. Of course the great majority of vessels afloat do not measure up to that standard.

Mr. EDMONDS. That would be on the hull and cargo of the boat?

Mr. MCGEE. On the hull alone.

Mr. EDMONDS. Now, what would you do with a ship like the *Lusitania?*

Mr. MCGEE. On the *Lusitania*, I think we could struggle along very comfortably with a line of $500,000.

Mr. EDMONDS. Would that be the entire insurance on her that could be placed now?

Mr. MCGEE. You could place $5,000,000 on a vessel like the *Lusitania.* on the New York market to-day.

Mr. CHINDBLOM. In American companies?

Mr. MCGEE. In the market; not solely American companies. But in purely American companies you could probably place something like $3,000,000. I thing I am conservative in saying that.

Mr. EDMONDS. Now, the English companies would take the entire risk, wouldn't they?

Mr. MCGEE. In this country?

Mr. EDMONDS. No; over there.

Mr. MCGEE. Yes; but the English market has its limitations. The English market to-day is sometimes running up to some extreme values, to be sure. They are running in cases where the values run up to high extremes. We find ourselves in this condition; we find that London is now and then sending orders to New York to place.

Mr. CHINDBLOM. Reinsurance?

Mr. MCGEE. Yes.

Mr. KINCHELOW. In American companies?

Mr. MCGEE. Yes.

Mr. EDMONDS. Of course, as those values go down, I suppose the course will be different?

Mr. MCGEE. That brings in just one other thought, the thought of the handicap under which American companies labor. American companies during the past three or four years have seen the desirability of their embarking in a world-wide business. A group of American companies in New York have put their heads together and so now we will cooperate with one another in appointing agencies throughout the world. But one handicap they have encountered and one thing that is an exceedingly serious handicap for an American company doing a world-wide business is this: Under the law of the State of New Jersey, to take a concrete example, and it was also true up to a very short time ago of the State of Minnesota, if an American insurance company, in compliance with the laws of some foreign country, made a deposit such as our own American States require of foreign companies, these deposits must be taken bodily out the funds of the American insurance companies. For instance,

in order to transact business in one foreign country, one of the companies with which I am connected made a deposit—I have forgotten the sum, but we will say $100,000—in a foreign country. It immediately had to take that money out of its assets and set it aside so that the particular State in question no longer recognized it.

Now, it means that that company, if it does an American business, loses the benefit of its own funds merely because it has had to comply with just such laws as our own by depositing that money in trust in a foreign country.

Mr. EDMONDS. Do the foreign companies have to do that, too?

Mr. MCGEE. Yes, sir. A foreign insurance company can not transact business in the State of New York, depending entirely upon the class of business it is going to transact. If it is going to transact a marine insurance business, it has to put up in the State of New York $200,000 plus $100,000 at least for a surplus, or it can not come in.

Mr. EDMONDS. That is not true of the brokers who do this reinsurance or insurance business through the cable on the other side, is it?

Mr. MCGEE. No; a broker is a free lance and goes where he pleases. He goes to a merchant and says: "Please let me do your business for you, and it will not cost you anything for my services." Sometimes the merchant listens to him and lets him do it. The broker will cable the rate to London, or he may cable to Italy or he may cable to France or he may cable to China.

Mr. EDMONDS. Do these Lloyds underwriters deposit money over here, too?

Mr. MCGEE. No, sir; a nonadmitted company, which would include Lloyds, a company which is not admitted to do business in the United States, pays no attention to our laws or the tax or anything else. You have to go over there to sue them.

Mr. EDMONDS. If a broker insures through Lloyds then, the American broker insures through Lloyds, what happens? They keep the policy there or the policy lies there; and if there is any damage, they have to be sued there?

Mr. MCGEE. Very often the policy is sent to this country, but now that there is a Federal premium tax on it I do not believe that the policies come over here any more than they have to.

Mr. EDMONDS. Well, do the shippers insure in that way?

Mr. MCGEE. Oh, yes.

Mr. EDMONDS. Is there a big volume of that business?

Mr. MCGEE. A tremendous volume. Hazarding a guess, I should say that in per cent it would be anywhere from 20 to 30 per cent of the commerce of the port of New York that is exported by insurance brokers to foreign companies; that is to say this, that the New York merchant, the large New York merchant—the small man does not do it, because he does not want to have to go to Europe to sue somebody, but the large mercantile houses in New York and elsewhere throughout the country—commonly authorize their brokers to place the insurance in foreign markets. Our own Navy Department does it. On naval vessels the builder's risk on naval vessels built for the United States Government was frequently wholly insured in foreign markets.

Mr. EDMONDS. That is rather peculiar.

Mr. McGee. It was because of a very slight saving in rate.

Mr. Edmonds. Who has done that, the Navy Department?

Mr. McGee. Yes, sir. Now, that illustrates the freedom with which American busines can be exported to foreign countries.

Mr. Edmonds. What percentage; did you say how much it was?

Mr. McGee. I should say something like 20 to 30 per cent of the commerce of the port of New York is shipped to foreign markets by American insurance brokers. There was a time when I think it was nearer 50 per cent. It is done purely on the question of insurance rates.

Mr. Edmonds. Would it go back to that again?

Mr. McGee. If they are permitted to, and if the rates of premium favor them; yes.

Mr. Edmonds. Is there such a thing as a broker taking fees for insurance placed on American rates, and then reinsuring in foreign markets and make more money on it.

Mr. McGee. Reinsurance applies to transactions between insurance companies. That is, in our business, when we use the word "reinsurance," we mean that one company, which for one reason or another has a larger risk on an individual vessel than it cares to carry at its own hazard, goes to some other insurance company and says, "Please take part of this line." That is what we mean by reinsurance.

Mr. Edmonds. I am just talking about the premium.

Mr. McGee. The broker does not reinsure. A broker goes out as a free lance and he owes allegiance to no insurance company. A broker goes from one insurance company to another in this market or in foreign markets seeking the cheapest market, or what he considers the most favorable market.

Mr. Edmonds. Does the customer get the benefit of that most favorable market in which he insures?

Mr. McGee. They are supposed to. I think it would be something—we had that situation to arise during the war-risk situation, and the competition again of experience, knowledge, and intelligence against ignorance. We found in New York that there were quite a number of brokers who were attracted by the large amount of money that was being handled and they came in the business without any knowledge of it. Some of those brokers, as we express it, traded. They would go to a merchant and say "I will place your insurance for 3 per cent," and then they would place it somewhere for 1 per cent or 2 per cent and the broker would take the difference. But the marine insurance men do not look upon that as being legal or proper, and the experienced insurance broker does not do that sort of thing. The experienced insurance broker gives his client, the merchant, the benefit of the same rate at which he himself places it. But the broker gets his remuneration through a commission which is allowed by the underwriters.

Mr. Edmonds. That condition that you say has existed during the war, will that prevail when things return to normal?

Mr. McGee. Undoubtedly the question of competition; yes, sir.

Mr. Edmonds. No; I do not mean the question of competition, I mean the question of this shopping, of brokers trying to make extra profits out of the business.

Mr. McGee. They have been pretty well found out.

Mr. EDMONDS. What happens to them when you find them out?

Mr. MCGEE. Well, if you can get the merchant to come up before the district attorney, it means jail in New York State. But the broker is very apt——

Mr. EDMONDS. To carry his office in his pocket and skip?

Mr. MCGEE. No; he has learned to be shrewd. He keeps within the law. We had one case of that kind, where the broker was supposed to place the insurance in France but had not. Of course you could not get the underwriter in Paris to come over to New York so the district attorney said, "What can I do?" So the thing is this, that no experienced, well-informed insurance broker ever does just that sort of thing. Sometimes the well-experienced insurance broker of a fleet of vessels, or in some other case where he has to use a variety of markets, will say to the insured, "I will do your business at the average of such and such a rate," made up of one price in one market and some other price in another. But there the broker knows what he is doing and that is proper. The broker is not making anything on that and the broker still gets his commission.

Mr. LEHLBACH. Would you suggest by means of legislation any restrictions or limitations on the right or power of brokers to ship insurance to foreign markets?

Mr. MCGEE. As I said at the beginning, you can not dam up the insurance business, and there is always two ends to it; so that if there were legislation of that kind it would simply mean that the shipper in New York does not do the insuring; the consignee in London does. So that in that way it would not be practicable. The only thing I could see, speaking offhand (and yet not offhand, because I think we have, all of us, given it quite a good deal of thought), the only way in which that can be reached is through the question of taxation and regulation of the exporter of marine insurance. And yet you are dealing there with an exceedingly difficult situation; because if you say that the insurance broker shall not send an order for insurance to London or to any foreign market, the broker can keep within the letter of the law, because he can have the merchant write a letter to the broker's correspondent in London so the broker has not done it. It is a difficult thing to get at.

Mr. KINCHELOE. You spoke a while ago of the Navy placing foreign insurance. Was that upon ships built in American shipyards?

Mr. MCGEE. Not in Government shipyards; no, sir. Vessels the Navy had contracted for.

Mr. KINCHELOE. You mean contracted to have built?

Mr. MCGEE. Well, in such cases—the Navy, for instance, has contracted for a number of vessels to be built at the Cramp's Ship Yards. I do not know if any of that particular insurance has been placed in England, but I think it has. But that is the sort of case.

Mr. CHINDBLOM. That was not for merchant shipping?

Mr. MCGEE. No; for naval vessels.

Mr. KINCHELOE. The Government did not own those vessels until they were completed and turned over by the contractor, did it?

Mr. MCGEE. They were built on the cost-plus basis.

Mr. KINCHELOE. That is true, but would it be the Navy's business to insure that vessel while it was being constructed?

Mr. MCGEE. The Navy supervised the cost of it, and the Navy passed on the price to be paid for insurance.

Mr. KINCHELOE. But what I am talking about is, does the Navy Department itself pay that premium?

Mr. MCGEE. The Navy Department pays it; yes, sir; through the cost-plus basis, and, therefore, it supervises it.

Mr. CHINDBLOM. It is part of the cost?

Mr. MCGEE. It is part of the cost, and it supervises it just the same as it says where the contractor shall buy his anchors and chains.

Mr. KINCHELOE. In the case of the construction of that vessel, before it is completed, to whom would the money be paid?

Mr. MCGEE. To the Secretary of the Navy.

Mr. KINCHELOE. Is the policy made direct to the Navy?

Mr. MCGEE. No: the loss, if any, is payable to the Secretary of the Navy as his interest may appear.

Mr. KINCHELOE. That is true, but I am talking about the face of the policy. Who is the insured? I am asking as a matter of information.

Mr. MCGEE. I understand. As a general thing, it is taken out jointly in the name of the builder and the Navy. It is taken out in the name, for instance, in the case of a vessel building at Cramp's yard, the insurance would be taken out in the name of the Cramp's Shipbuilding Co. for account of the United States Navy, and the loss, if any, payable to—both names are coupled, the shipbuilder and the Navy.

Mr. KINCHELOE. Payable as the rights and interests may appear. Of course, that is true. But don't you make the same kind of a policy to the owner of a vessel and the mortgagee, that in case of a loss that it is to be paid to the mortgagee as his interest may appear?

Mr. MCGEE. Yes.

Mr. KINCHELOE. Now, as a matter of fact, that is not the Navy directly doing it, is it?

Mr. MCGEE. But it does happen the Navy has a good deal of voice as to where the insurance will be placed and at what price.

Mr. LEHLBACH. And as a matter of fact, does not the Navy direct where the insurance will be placed, absolutely?

Mr. MCGEE. Yes, sir.

Mr. EDMONDS. That was not done before the war?

Mr. MCGEE. It was done before the war, but they did not pay just the same attention to it. Before the war, I would say that the major part of every vessel built for the Navy's account was insured in foreign markets.

Mr. EDMONDS. Before the war?

Mr. MCGEE. And now, too.

Mr. EDMONDS. But they would only insure a Cramps vessel, if Cramps took a contract with the Navy to deliver them a vessel, the policy was simply made out in the name of William Cramps & Son before the war?

Mr. MCGEE. And the policies of insurance were filed with the Secretary of the Navy.

Mr. EDMONDS. There was an interest clause in there; that is before the war and now, too?

Mr. MCGEE. Before the war and during the war.

Mr. KINCHELOE. What percentage of Navy ships or other craft was insured in foreign companies?

Mr. McGee. Those that are navigating?

Mr. Kincheloe. Yes; or not navigating, both?

Mr. McGee. I have no means of knowing that.

Mr. Kincheloe. Of vessels navigating?

Mr. McGee. Vessels navigating are not insured as I understand, but vessels under construction are always insured.

Mr. Kincheloe. What percentage of those were insured in foreign companies?

Mr. McGee. I have no means of knowing. It must be a very large per cent.

Mr. Kincheloe. It must be a very good reason. You know one of the reasons was they could not get insurance in this country the same as a whole lot of people could not get marine insurance.

Mr. McGee. They could get it in this country, but the brokers, for competitive reasons, sent the business to England, and placed it in England for a long period of time; and the American companies saw so little of it that the American companies stopped writing it, and then it became necessary, if you wanted to place it at all, to place it in England. But now for the last four or five years, the American companies have evinced an interest in it and a desire to have it.

Mr. Kincheloe. Do I understand you to say the Navy does not insure any of its ships afloat, battleships or anything else?

Mr. McGee. Not as I understand it.

Mr. Edmonds. They take their own risk on that.

Mr. McGee. The Government carries its own risk on Government property.

Mr. Chindblom. It does not insure anything?

Mr. McGee. It does not insure anything, not even its buildings.

Mr. Kincheloe. Is that under the same system as the Shipping Board insures theirs?

Mr. Edmonds. They only carry a book account just like many private concerns carry a book account.

Mr. Kincheloe. I understand they carry a book account, but I mean does the Navy do that?

Mr. Edmonds. They do not even carry a book account; they just say the percentage of risk is not as great as the insurance would cost them, so they take the risk.

Mr. Chindblom. Now, Mr. McGee, during the war, while this insurance has been placed upon vessels being built for the Government, do you know who has handled that insurance as a broker?

Mr. McGee. The Naval vessels under construction?

Mr. Chindblom. Yes.

Mr. McGee. There have been three or four different brokers.

Mr. Chindblom. Not over three or four?

Mr. McGee. Well, there are four names only that occur to me.

Mr. Chindblom. Could you give us those names?

Mr. McGee. Yes. Mather & Co., of Philadelphia; Johnson & Higgins, of New York; Frank Gair Macomber, of Boston, and Brewster-Upton, Inc., of New York. I think those four have done more Navy business than anything else. They are the four that occur to me.

Mr. Chindblom. You are a broker?

Mr. McGee. No, sir; an agent.

Mr. Chindblom. You are not a broker at all?

Mr. McGee. Not a broker; I am an underwriter.

Mr. Chindblom. You do not do any brokerage business at all?

Mr. McGee. None whatever. I take business that is brought to me; I am an underwriter; I am a company man.

Mr. Edmonds. It might be of a little interest to the committee to know the modus operandi of Lloyds. I do not know whether the members of the committee know it or not, but I think it possibly would be good to put in the records here the Lloyds' insurance end. I do not mean their registry end, but the insurance end.

Mr. McGee. Yes. By the word Lloyds the layman is very apt to be confused, because there are two or three things in which the word Lloyds is used. In the insurance sense, Lloyds is a news-gathering institution and a place where individual underwriters meet. The corporation maintains its big establishment; they admit members to various classes. What is known as an underwriting member is a man who acts as an insurance company all by himself, or he may act for a group of other individuals. Each individual and each underwriter must give certain guaranties to the corporation of Lloyds as to his solvency. Now, Lloyds, the corporation, assumes no responsibility whatever and takes no part in the acts of the individual. So when you come to discuss or refer to the matter of an insurance being placed at Lloyds, you mean that it is placed by some of these groups of individuals that have desks at Lloyds and transact their business there. No one but an admitted member can transact his business there; no one but an admitted member of Lloyds may use a policy of insurance which bears the insignia of Lloyds.

Mr. Lehlbach. Right there, is the membership in Lloyds restricted to individuals or can corporations become members of it?

Mr. McGee. I believe underwriting membership in Lloyds is restricted to individuals. Underwriting members of Lloyds may not write for a corporation: they may write for only individuals. Corporations such as insurance companies are admitted as associate members of Lloyds simply for news gathering and other similar services. What we speak of as a Lloyds agent throughout the world is a man who is in one sense a gatherer of news as to the sailings, departures, and casualties, and he also acts as the man who investigates in the case of loss and damage.

Mr. Chindblom. Can any individual member reinsure a risk with a corporation?

Mr. McGee. He may. Now, when a New York broker sends an order to London he sends it to the insurance broker in London, and the insurance broker goes to Lloyds and goes on the floor, as they call it. No one but a broker who has been admitted to membership at Lloyds may go on the floor to place a risk. So that the Lloyds broker then takes his little piece of paper, and he goes from one desk to another and offers his risk to each one of those individual underwriters. I have forgotten the number, but there are a large number of individuals. It is like a great big school, a very large schoolroom with something like four or five hundred scholars sitting at desks quite similar to those we used to use at school, excepting they are double desks with two men facing each other, with Mr. Underwriter on the one side and another Mr. Underwriter on the other side. The Lloyds broker may offer his risk to this man, and he may later on offer his risk to that man, and each one accepts or

declines it. For the insurance once placed or declined Lloyds has no connection with it; it is the individual purely. I think that covers your question, Mr. Chairman.

Mr. CHINDBLOM. But you get a policy?

Mr. MCGEE. Yes; you get a policy. The broker prepares the policy, and then that policy is subscribed by each one of the individual underwriters. If you get a Lloyds policy, you may find four rows of rubber-stamp signatures, the names with the amounts and the dates, and then the signatures of the men that sign for that risk, so that on the Lloyds policy you may have four or five hundred names, each one a single individual.

If one man refuses to pay a loss, that does not bind anyone else. If one man pays it, it does not bind anyone else. They follow their leaders, as a rule. If what they call a leading underwriter pays a loss, generally the rest of them follow like a flock of sheep. It is a system of bellwethers.

Mr. EDMONDS. Owing to their carrying out the matter the way they have, a Lloyds policy is considered just as advantageous as one of a regular established insurance company, is it not?

Mr. MCGEE. The reputation of Lloyds has been very high, but now and then you will find certain circumstances where a Lloyds underwriter refuses to pay a loss and alleges one reason when he may have another one. And then you must sue him and you must sue each and every one of those underwriters if they elect to take that stand. It is not often done, and there is generally some reason why a condition of that kind arises.

Mr. EDMONDS. You find among the merchants then that they are just as ready to take a policy of Lloyds as they are to take one of a regular old-line company?

Mr. MCGHEE. Yes, sir; as a general rule.

Mr. EDMONDS. Is there any movement in view to form anything like a Lloyds over here?

Mr. MCGEE. You could not do it. We have had, at various times in New York, some things that were called Lloyds and were more or less modeled after the Lloyds principle; but they were not Lloyds in the real sense of the Lloyds of London. We have had a number of cases where an aggregation of individuals have combined together to issue an individual policy, and they were not a corporation; they acted as individuals. But most of the States enacted legislation which put Lloyds of that sort, so-called Lloyds, upon the same plane and exacted from them the same requirements that would be exacted from a corporation. So that most of the old Lloyds have disappeared—the American organizations.

Mr. EDMONDS. There is no reason why a Lloyds could not be formed in New York State, is there?

Mr. MCGEE. No; there is no reason why you could not, but it would have to have the same capitalization and the same surplus, and it would have to have the same legal requirements, to go through the same legal procedure for getting certificates and authority from the insurance department, as a corporation. And there is no advantage, nothing to be gained, by forming a Lloyds in New York.

Mr. EDMONDS. Would there be an advantage if it were possible, without having all these deposits of money in different States to do business, and that kind of thing, and with the capital requirements?

Mr. McGee. Of no practical advantage, no, sir, for this reason: Lloyds of London is a very old institution. It was started when there was no such things as insurance corporations. It built up a name and it built up a prestige. The corporation of Lloyds exercises certain jurisdiction over them. The corporation of Lloyds exercises pretty much the same sort of jurisdiction over the underwriting members as the insurance department of the State of New York exercises over a corporation transacting business in the State of New York. That has been a growth of time. Up to five, seven, eight, or ten years ago. Lloyds did not supervise some of the financial functions or some of the operations of some of Lloyds underwriters; but they have instituted reforms in that direction called out by abuses in their own country among their own people.

But the great trouble with the Lloyds system in the United States is that so many of the so-called Lloyds operated in such a way as to give the Lloyds system in the United States a very bad name. It is not as easy for an underwriter or a broker to sell, as we call it, a policy of a Lloyds, as it is of a corporation. Under the present law of most of the States, there would be that same supervision of a Lloyds formed since 1909 or thereabouts, when the law was changed in New York. And there is nothing to be gained. Now, if you were going back to the original process, when any one was free to form a Lloyds or a set of Lloyds names in New York, you would have to couple with it some supervision that would prevent them from falling back into the evils that then existed.

Mr. Edmonds. The only thing gained by it would be, of course, the more elastic working of the premium rate.

Mr. McGee. There would be no gain from that, because the New York Lloyds would have the same overhead expense as a corporation. There would be no gain from that source. You see, the London Lloyds or the Lloyds underwriters in London have an advantage, because they escape our taxes. They deal only with the broker in London, and he only pays the broker a low rate of commission or brokerage. They run their business in a very different way from what an insurance corporation, either in England or America, would run it. The Lloyds underwriter very frequently has little more than his desk room for his office. He bunches his business in a different way from what we do. He writes in small units. A Lloyds underwriter, as a rule, probably would not accept for his own risk more than £50 or £100. So the practice has grown up for one underwriter to act for a number of individuals, who also themselves are underwriters but take no active part in it. The man who becomes an underwriter for a number of individuals may sign a policy for anywhere from 5 to 20 names, each one of those names being listed, and each one being put down for £50 or £100 or whatever it may be. Now, you can not very well deal on that sort of a basis on the American market, I think.

Mr. Edmonds. To change the subject a little bit, let me ask you something else: When this war started wasn't there an attempt made by New York underwriters and American underwriters to form some kind of an organization, virtually a monopoly, so as to handle the risks in a united manner?

Mr. McGee. No, not in just that way. I think what you have in mind is this: There was a state of intense competition, due to the

brokers shipping the hull insurances to England. We American underwriters tried to save it for ourselves, some of it. We found that the question of rates was a very important factor. The English underwriters were giving, and they are giving to-day, American hulls cheaper rates than they are giving English hulls. English underwriters have advanced the rate on English hulls twice within the last three years, and each time by 10 or 15 per cent. The American hull business has been very unprofitable to the American underwriters. Our own office has not made one-tenth of 1 per cent over a period of 10 years of what the London office has made. We have done it largely from patriotic motives, and we have also done it largely for the purpose of keeping in touch with our business. The English underwriters were losing money on the American hulls, just as we were. The English underwriters, as individuals, took up with their representatives here in New York the question of raising the rate. The American underwriters said, "We would be very thankful to see the rates raised, so that we could at least come out whole and perhaps make a little money out of the business." That thought was carried out in London, and the London underwriters came along and said. "Why, we would be very glad to go into some sort of scheme of that kind if the American underwriters will not absorb all of the business; if the American underwriters will guarantee that 40 per cent or 50 per cent of that business will be placed in England, the English underwriters will be very glad to cooperate in some movement to place the business on a profitable basis." The American underwriters replied, "We have, unfortunately, jails over here, and we can not go into any combination which would guarantee that anything could go to England or to any other market, or that it should be placed anywhere; that that business would have to seek its own market in the natural and the normal way."

Mr. Edmonds. How long ago was this?

Mr. McGee. That has been going on for the last two or three years. The Englishman replies, "Well, if you won't guarantee that 40 or 50 per cent of the business will be placed in London, then we will do nothing." So that is the position to-day and for that reason the American shipowner to-day is getting his insurance for less than cost and he is getting his insurance for less than the amount the British owner of an identical vessel is paying for his.

Mr. Lehlbach. If I may interrupt you at this point, it has been suggested that the committee take a recess until 2 o'clock and continue this afternoon and that we might still continue this hearing to-morrow morning, after the session this afternoon, because there is nothing that would interfere with it. And, Mr. McGee, if you can, at the afternoon session, I would like to have you touch on the subject that I suggested, namely, where your companies get your information on which you base your rates—whether from the American Bureau of Shipping or the Lloyd's agency or from what other source—and the manner in which that information is gathered by the source on which you rely.

Mr. McGee. That can be done and it won't take all the afternoon to do it, sir.

Mr. Edmonds. And, Mr. McGee, I would like to have an expression of your opinion on Mr. Hurley's plan of Government insurance of

mortgages that we take on the ships we sell. I guess you know about it, don't you?

Mr. McGee. Yes, sir.

(Thereupon, at 12.50 o'clock p. m. a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

The committee reconvened at 2.15 o'clock p. m.

STATEMENT OF MR. W. H. McGEE—Continued.

Mr. Lehlbach. Will you resume your testimony, Mr. McGee? Before you continue, I think I would like at this time to ask a few questions based on section 7 of the bill which is to be introduced by the chairman of this committee, Mr. Greene, a bill which was submitted by the Shipping Board. Section 7 provides that the board may itself insure or cause to be insured with itself its interest in any vessel against accident, fire, and other hazards. Now, it is the practice where the shipowner sells the ship to another, retaining the lien for part of the purchase price, that he at his expense insures that part of the vessel represented by his lien or interest, or is it not the duty of the purchaser himself to procure and pay for this insurance in order to safeguard his mortgagee? For instance, if I buy a house from someone and give him back a mortgage for part of the purchase money, it is up to me to insure his interest at my expense as long as the mortgage remains unpaid. Is that the practice in shipping, or is it otherwise?

Mr. McGee. That is the practice in marine insurance. The hull policy of marine insurance generally runs only to the insured or the owner, and it is the owner's duty to see that it is insured. However, in general practice, it is the duty of the owner of the ship to provide the insurance for the mortgagee or whoever takes the risk.

Mr. Lehlbach. And there is attached or endorsed on the policy a statement of the mortgagee's insurable interest lawfully to be paid to him, such as it may be?

Mr. McGee. Something of that nature.

Mr. Lehlbach. Do you care to comment on this provision that the Government or the Shipping Board should carry the insurance on the ships and if the customer should buy the ships he will bear that insurance and bear that expense?

Mr. McGee. That would depend a little bit, I expect, on the terms of the charter. If the vessel was chartered under the ordinary boat form, then the expense would fall on the charterer or lessee of the boat, and he would have to take out the insurance. I should judge that that is looking as much to the possibility of there not being a full market for the insurance of some of the vessels. There was a period of time in the early construction of the Shipping Board boats when I doubt whether it would have been possible for the value of those boats to be covered satisfactorily with private insurance companies. That was due to the uncertainty as to what was going to be done. This bugaboo of wooden ships, which was a real horror to those of us who had anything to do with wooden ships, even when they knew how to build them, was responsible for that condition.

I believe that on account of that situation it would have been impossible to have insured wooden ships.

Mr. LEHLBACH. Because of their lack of seaworthiness?

Mr. MCGEE. On account of their unseaworthiness, the uncertainty of construction, the method of construction, a marine insurance company and a ship owner who had had anything to do with wooden ships, whether they be barks, steamers, or schooners, knows that it takes a ship builder to build a ship, and it takes a ship carpenter to build a ship; a house carpenter or joiner can not do it. However good his intentions may be, he does not know how to do it.

Mr. LEHLBACH. Mr. McGee, as far as this applies to ships that are purchased by private owners from the United States Shipping Board, the presumption is almost irresistible that none would buy a ship unless it would stay afloat.

Mr. MCGEE. True.

Mr. LEHLBACH. Consequently that objection to the purchaser being able to procure insurance would not be a practical objection under such circumstances.

Mr. MCGEE. It no longer obtains.

Mr. LEHLBACH. Therefore there is no special reason why the ordinary custom should not be followed of letting the customer insure the boats and allow such portion of the insurance to the seller as he may retain by reason of a purchase money mortgage?

Mr. MCGEE. It is the more business-like procedure.

Mr. LEHLBACH. Now, another thing. Section 7 goes on to provide that if any lessee or purchaser from the board is unable to or fails to procure such insurance on his interests, then the board may insure such interest. Now, there might be some instance, if the purchaser is unable to procure insurance, where the purchaser should have his interest insured for him. But if he simply does not procure insurance, if he fails to do so, why should the Shipping Board insure not only their own but his interest to the extent of placing that insurance in the market where it belongs?

Mr. MCGEE. The question of the insurance of a hull goes back to certain fundamental principles. The rate of premium on the hull basis is not based upon any measurement; it is largely based upon the construction and based upon the ownership and the management. Two vessels identically alike, sister ships, one under one management and another under another, might pay and frequently do pay quite different rates of premium. One owner is an efficient manager and he keeps his ships right up, particularly about the captains that he appoints. Another shipowner is not so particular and he saves at every point that he can. Therefore one owner will have no losses and the other will have many losses. Now, if one owner fails to insure, he may fail because he is an owner who has made such a reputation for himself among insurance companies that he can not get insurance on the same rates or he might not get them at all. There are some shipowners that we all dread very much having anything to do with. We know we will get it, no matter how good a ship he has got.

Mr. EDMONDS. The Shipping Board's idea, as given to me by Mr. Campbell, their attorney, was that the American insurance companies had not sufficient capital to carry all the risks, that it was required that all these hulls be insured, selling the ship for 25 per cent of its value, and taking a mortgage for 75 per cent, the seller

insisting on its being insured in order to protect himself; that selling a ship in that way would place some insurance on the market; more insurance than could be taken care of in American companies. Now, their idea was that so far as their interest in the vessel was concerned, they would insure it to protect themselves. That is, if their mortgage was for 75 per cent, 65 per cent, or 50 per cent on the vessel, they only insured the customer to that extent, eventually carrying themselves out of the insurance business as the mortgage was reduced. Now, is the insurance situation such among the American companies that that would be an advantage to give the companies time to grow and take care of it all?

Mr. McGee. I think that was the purpose of it? I am a little bit familiar with the conditions and recommendations that led up to it, and it is what I had in mind when I was speaking before. Last October when an investigation was made with respect to the insurance questions, then the matter of insurance carried with it the necessity of taking care of these wooden vessels. The recommendations made at that time were that the insurance could be placed with native American companies, and by native companies, I mean purely American companies, and not foreign companies admitted, in order that they might gain such experience as would enable them, at the time when these ships were coming back or coming into private ownership, to intelligently make rates and conditions for these vessels. Now, at that time the recommendations were confined to American companies, as distinguished from admitted companies.

We were all confronted at that time with this wooden-vessel proposition, and we were quite sure that it would not be possible to place in the American market with satisfaction anymore than something like 25 per cent of the value of those wooden vessels. You see, they were running up to about $600,000 or $700,000 in valuation at that time, and to confine that insurance to American companies on vessels of that character, it was doubtful if there was a market for vessels of anything more than $150,000 or $200,000 in value. Now, both steel and wooden vessels fell into the same category, because we could not make fish of one and fowl of the other. The recommendation at that time was that on account of the growth of the companies and in order to give the American companies experience to deal with vessels on a commercial basis, 25 per cent of the value should be placed with American companies and the Shipping Board carry the remaining 75 per cent. Now, the situation has been changed very radically since that recommendation was made. The wooden vessels have been pretty well eliminated, and now it comes to the question of steel vessels. Steel vessels range in value from $500,000 to, I think, $1,500,000 or $2,000,000 in value. I think there were some exceptional cases at one time. The open insurance market in New York—American as well as admitted companies—I am inclined to think, would come pretty near supplying capacity to take care of $500,000 or more than that on those vessels. But that is one of the things that you can never be too sure about until you go into it and sound out the market.

Mr. Edmonds. But you think there is absolutely no advantage in passing a law of that kind now, that we should allow the purchaser to place a mortgage on the vessel without any restriction, whenever he pleases, without any restriction by the Shipping Board?

Mr. McGee. I believe he can do that, except, possibly, in the case of some of the higher-priced vessels. I believe some of the tank ships run up into very large values, because they were built when tank construction was more expensive than the construction of the hull.

Mr. Chindblom. Does not the cost of the vessel determine the insurable value?

Mr. McGee. It should, but it does not always do so. Its insurable value is based generally on the value of the vessel as a selling proposition in the open market; but if you get a vessel of a peculiar construction, that has a peculiar value to her owner, you may insure her hull on one basis and then insure her again outside of the hull on the basis of risk.

Mr. Edmonds. If we were to pass this bill the way it stands now, and the Shipping Board was to start in and insure the cost of the ships, charging the cost to the owner, would that in any way foster or build up the American insurance companies?

Mr. McGee. Yes; because the business makes the capacity.

Mr. Lehlbach. That is, if the Shipping Board did it itself?

Mr. McGee. Yes.

Mr. Edmonds. That is what I meant.

Mr. McGee. But if the Shipping Board adopts the policy of placing all the insurance that it can within reason with private companies, and merely takes what can not be placed properly and equitably with private companies, then you do foster American interests.

Mr. Lehlbach. Now, Mr. McGee, you spoke of the fact that there may be exceptional instances where the whole insurance on the hull could not be placed in the open market on a boat worth $1,000,000, or something like that, or for some other reason, if the boat was exceptional. Now, would not that condition be met by making section 7 to read that where it is impossible to place the insurance in the market, in that event the Shipping Board may insure with itself its own interest in the vessel?

Mr. McGee. It certainly would.

Mr. Lehlbach. But only in the event that the insurance can not be placed at reasonable rates in the open market?

Mr. McGee. It certainly would.

Mr. Edmonds. That would lead to the Shipping Board insuring all the insurable ships and the market taking all the good ships.

Mr. McGee. That is why I pointed out in the first place the reasons for making the recommendations. Of course, it is an absurdity to have the mortgagee acting as his own insurance for the protection of the mortgagor.

Mr. Chindblom. Does it not happen, in reference to vessels owned by private individuals or corporations, that a vessel may be so constructed or may be of such value that the owner is unable to procure this insurance, and then he has got to carry it at his own risk?

Mr. McGee. That is true. There are certain vessels that have been built in Japan where the valuations have run very high, so that the Japanese companies—and there are quite a great many of them—have absorbed every yen they could of their value, and then they have gone to London, and they are actually coming to New York. The insurance market—what we might call the capacity of the insurance market—is as a rule based upon something like the normal

condition; and when we meet with an abnormal condition, as we are meeting it to-day, private capital can not be expected to go beyond a certain point—beyond what they can see as a lasting business.

Mr. LEHLBACH. Now, would you touch on the topic that I suggested before recess—the source of information upon which rates are based and with respect to the American Bureau of Shipping, the Lloyd agencies, and any suggestion with reference to bringing a system of uniformity into practice?

Mr. MCGEE. The average underwriter—I say the average underwriter, but they all do it. The underwriter bases his rates primarily upon his experience with an ownership, a trade, and a route. Now, when it comes to an individual vessel we must have some sort of information as to the character, the physical character of that vessel, and her physical condition. Now, as the Lloyds Register has made for itself a very enviable reputation, it has made that reputation for itself because its management is very largely in the hands of underwriters, and it is the underwriters who dictate to a very large extent the policy of the management and the rates, the classification that is given to the vessel, and for that reason it carries a great deal of weight. Then, of course, England has been the great ship-owning country, and Lloyds Register has classified all the great ships. There have been two or three competitors of Lloyds, but they have all fallen back sooner or later into Lloyds. So that Lloyds has become the standard book the world over for British vessels, and as British vessels have formed a great predominance over many others in the past 10 or 15 years, it has been quite natural that everybody should turn first to Lloyds Register. One thing that this country lacks—two or three things that they lack—not only for the building up of the marine insurance but of the building up of the merchant marine to put it on a proper basis, is the factor of a load line. British vessels all have a load line below which it is unlawful for the vessel to be loaded. It is unlawful for a vessel to carry such loads in certain periods of the year into the United Kingdom; that is, during the winter months.

Now, we have nothing of that kind in this country. Now, an underwriter dealing with Lloyds Register looks up and sees her physical characteristics, her physical make-up, but that only relates to that particular vessel. Now, if you are dealing with hull insurance an underwriter in making his rates will base his rates upon the physical construction, the physical condition as shown by Lloyds Register or by the American Bureau of Shipping, which is growing better and better all the time and becoming more and more the standard of American underwriting, because American hulls are growing in number. Then, it shows the ownership. Now, the question of ownership is a very important thing in making up an estimate of a ship. The American Bureau of Shipping for a good many years past, has been about as good a standard as we have had in this country for the wooden ships.

Mr. LEHLBACH. Right here, Mr. McGee, how does a ship become described in the book? How does it get in the book? On the application of the owner and the payment of a fee, or does the register look up ships of its own motion and describe them in the register?

Mr. MCGEE. The registers—Lloyds Register, for instance, to a larger extent than any other, the American Bureau to a very great

extent—give a list of all vessels, whether they are classed or not. Lloyds Register shows the steamers over 100 tons register, wherever built and whenever they were built, whether they are classed or not classed. They get up that information wherever they can. But whenever a vessel is contracted for it is the common practice, almost the universal practice, for the owner of that vessel, the prospective owner, to say, "I want it classed in Lloyds; I want it classed in the bureau; I want it classed in the American; I want it classed in the Bureau of Veritas," depending on what nationality of work the ship is going to be engaged in. Practically every country has it own standard classification book, and the owners of shipping in that particular country are apt to take that particular classification.

Now, when the boat is built is has to be constructed according to the particular registry for which it has been selected. The plans and specifications for that ship must then be filed with the bureau with which it is to be classed. They pass upon the prints and specifications; and then generally watch it during the course of construction to see that the materials that are put into her measure up to their standards. If the vessel is constructed according to the standard, she is given a rating which lasts a certain length of time. Now, that rating is, to a very large extent, the guide as to that vessel's physical construction, physical condition, but it does not always serve as a guide for underwriting purposes. There are a good many vessels that would be classed as X 100 A1, which is the highest rating in Lloyd's Register, and yet it would be entirely unsuitable for the particular trade for which she was built, and therefore its classification neither helps nor hinders it. It all comes back to the question of the type or class of the vessel. There are a great many vessels built on the Great Lakes that have been classed as 100 A–1 and they have been classed for lake service only, and they are not fit for ocean service.

Mr. Edmonds. Does the classification go down as the vessel ages?

Mr. McGee. The classification runs for a certain number of years and is subject to a certain number of surveys. For instance, the vessel is classed for 20 years, and at the end of 20 years she is pretty apt to go down to a lower grade, or if she has been kept up to a high state of goodness of condition they may give her the original class for a short additional term of years, or they may limit her to a certain specific trade or trades for that class of vessel.

Mr. Lehlbach. How is insurance on hulls usually written? Is it usually written by the year or by the voyage?

Mr. McGee. By the year.

Mr. Edmonds. And cargo insurance is written by the voyage?

Mr. McGee. Generally by the voyage. The only exception to that is on some of the coastwise routes where the voyage is run so quickly it would be impractical to insure the cargo by the voyage.

Mr. Edmonds. It is impossible to insure the cargo where the ship is hauling the same cargo from year to year?

Mr. McGee. Not on the coastwise trade. Take the Old Dominion Ship Co. in Savannah; the owners have been in the habit of taking out insurance on the cargo by the year, but, of course, they have a readjustment at the end of the year, according to the values carried in each separate voyage.

Mr. Lehlbach. Is there any further topic that you care to touch on?

Mr. McGee. I was going to take up something along the same line.

Mr. Chindblom. At some point in your remarks there are two or three questions brought out by the hearings this morning that I desire to ask whenever it is convenient to your line of thought.

Mr. Lehlbach. The reason I asked that question is that I am informed that Commander Taylor, of the American Bureau of Shipping, must necessarily return to New York on a train in the neighborhood of 4 o'clock, and it will be impossible for him to return to-morrow, and I was trying to get an idea as to how much longer your testimony would be to-day, in order to give Commander Taylor an opportunity to be heard before he must leave.

Mr. McGee. A very few minutes more will complete my statement, and then I will be ready for any questions.

Mr. Lehlbach. Proceed, Mr. McGee.

Mr. McGee. However, I will give way to Commander Taylor, if you would like to hear him now, and I can resume later.

Mr. Chindblom. That would be very nice.

Mr. McGee. I will do that.

STATEMENT OF COMMANDER STEVENSON TAYLOR, PRESIDENT OF THE AMERICAN BUREAU OF SHIPPING.

Commander Taylor. Mr. Chairman and gentlemen, I am at your service. I am president of the American Bureau of Shipping. At the present time I am a commander in the United States Naval Reserve Forces, my services having been solicited before the war commenced as a member of the board of appraisers for merchant and private vessels. Later on I was named by the President as a member of a board to determine the prices of vessels commandeered during the war; and also a member of a committee of the Shipping Board having charge of German and Austrian vessels. From that position, my other work having been completed, I have just resigned to take effect August 1, so that I have been pretty busy in the last two years particularly. I am not an insurance man, but I think that one or two of my experiences in placing insurance may be of value to you, having in view the questions that you asked Mr. McGee this morning. I have been responsible to a very large degree, for the construction of a number of large steamers. I have placed insurance on the same in time gone by, previous to 1908, on vessels valued from $1,000,000 to $2,000,000. That was construction insurance. That was for the purpose of insuring the contractor while the ship was being constructed and it protected the others also. Those policies were made out in the name of the contractors, but the loss, if any, was payable to the steamship company as their interest may appear. In other words, they were protected on their advance payments. The same rule, I think, obtains in the Navy. That I do not know because I have never done any Navy work.

As I say, I have placed insurance at different times on ships of $1,000,000 to $2,000,000. At that time nearly all of that insurance was placed in England. On one vessel insured at $1,250,000, I tried to give it all to American companies, and we succeeded in placing $250,000 or $300,000 in 25 different American companies. Another $250,000 was placed with Lloyds insurance as described by Mr. McGee. The policies there came just as described by him, signed in the

name of the different individuals who took part in that Lloyds insurance, and the balance of it was placed in English companies. That has been the experience in the past. But I may say, and that will be borne out by insurance men, that in the last four years, in the last three years, particularly, the facilities for placing American insurance in American companies has very largely increased. For instance, I talked with a member of the firm of Bryce Bros., on this subject the other day, and he said that several years ago they had 22 places where they could apply for that insurance, and now they have 106 places. I think that shows not only an increase due to the increase in numbers but also an increase in capacity. One other fact came out of that conversation, that a great deal of English insurance has been placed in this country in the past two years. At the present time there has been an application made to some companies to reinsure American cargoes, the original insurance of which was placed by the manufacturer in America in an insurance company in London; the insurance was placed in London. That is a matter of common occurrence.

Now as to the American Bureau of Shipping. That was originally called the American Shipmasters' Association, the idea being to keep track of the shipmasters more than a register of the vessels themselves. That was in 1862. After a few years that was changed to the American Bureau of Shipping, and it was established as a register on the line with Lloyd's Register, the business being exactly the same as the British Lloyd's Register. For many years it was the child, so to speak, of one insurance company, and in consequence of that fact it did not grow, because all other underwriters took no interest in it, because they felt that it had no interest in them.

Mr. LEHLBACH. What company was that?

Commander TAYLOR. The Atlantic Mutual. In 1913 and in January, 1915, and again in the latter part of 1915 there were three separate attempts to combine the British Lloyd's Register and the American Bureau of Shipping. About Christmas time, 1915, I was approached by a friend of mine. I had been retired from my shipping business because I wanted to spend the rest of my life in comfort. I was approached to see whether I would take charge of the American Classification Society, if I would consider it, and I said, yes, I would consider it. During that same week another friend asked me if I would not attend the reorganization meeting of the American Bureau of Shipping, and at his insistance I went down and was made chairman of this reorganization committee. At that time they had been conducting negotiations with Lloyd's, and I found that in this American reorganization committee there was a difference of opinion as to what would be the result if there was this combination with Lloyd's and an American committee appointed to represent Lloyd's. One or two of the members thought that the American committee could take up any plans of American ships if they were passed by the American committee and the ships could be insured in Lloyd's, but some of the members did not understand it that way. They thought that the plans would have to go to London; so I asked Mr. Scott, the secretary, who was in the country at the time to meet with our reorganization committee, and he had two other gentlemen with him, and I asked them this question, put-

ting it up to them in this way: Suppose an American naval architect designs a new style of ship and your American committee, formed under this coalition, passed the plans for that ship. Will Lloyd's, in London, accept the decision of the American committee or will the plans have to go to London? Mr. Scott responded at once that the plans would have to go to London, all the plans would have to go to London.

Well, that really answered the purposes of the interview, but I asked him two or three other questions just to let him down easy, so to speak. The reorganization committee decided at once that if that was the case that there would be no use of joining with Lloyds. At that time I had no official connection with either of them. They said, we will go on and establish our own classification society and reorganize the American Bureau of Shipping, and as a result of that discussion, on February 29, I was made president of the American Bureau of Shipping, and if I had known what I was going to go through for the next two or three years, I doubt if my patriotism would have carried me that far. On March 1, 1916, the American Bureau of Shipping had five exclusive surveyors. They had a list of not exclusive surveyors throughout the United States, and in other parts of the world, but they only had five exclusive surveyors in the New York office. The total pay-roll, including the salary of the president as determined at that time, including all office expenses, was at the rate of $28,000 per annum. At the present time we have at least 185 technical men in our surveyors' department. We have 14 officers throughout the United States. We have an expenditure payroll of several hundred thousand dollars; so that we have grown somewhat in the past two years. As a matter of fact, most of our work has been done in the past two years. When we commenced, in March, 1916, the American Shipping Bureau had only 8 per cent of the American-built vessels and Lloyds had 92 per cent, practically, although there may have been some in the Bureau Veritas. At the end of 1916, December 31, we had 22 per cent instead of 8 per cent, so we were growing. Now we have a very much larger percentage, due to the fact that the United States Government has to that extent supported the American Bureau of Shipping, and by that I do not mean that they have contributed any funds to it, but our total income is derived from fees, from the surveys and giving class to the vessels.

Mr. CHINDBLOM. What is the percentage now, approximately?

Commander TAYLOR. Sixty-eight per cent and 32 per cent.

Mr. EDMONDS. Sixty-eight per cent American?

Commander TAYLOR. And Lloyds 32 per cent. The Bureau Veritas has a few. But that is the percentage of the vessels built under United States Government ownership. We have some outside of that; the Veritas has some outside of that, and I think Lloyds have some ships outside of that class. The American Bureau of Shipping to-day is growing, and Mr. McGee has just told you, very kindly, too, that it is growing better all the time. The original ownership, if you might call it so, is entirely changed. There is no money interest controlling it. It is chartered under the laws of the State of New York and we are still using the original charter, because we could not change it to-day no matter what we tried to do. There is no stock and there is no dividend paid. There is nothing paid but

these expenses of a Government institution. When the time comes that we can have an established surplus it has been my dream to establish a compensation fund, or retirement fund for the old surveyors, but we have not come to that point yet. Nobody receives anything out of the institution. So that whatever we have is used for the development of American shipping absolutely. I have only the interest of my salary, and as I took that without regard to my own financial affairs, the sooner they get rid of me the better I will be pleased, but in decency I can not do that for another two or three months yet.

Recently, with the approval of Secretary Daniels and Secretary Glass, and also with the approval of Secretary Redfield, I succeeded in obtaining retirement from the United States Coast Guard Service for Commodore Goethals and Engineer-in-Chief McAllister, and they have been selected vice presidents. That was on July 1, two weeks ago. They are men who are well known throughout the community, and particularly well known here in Washington, and their work for the Government has been exceedingly praiseworthy. I know they are a good team and I know now that no matter what happens to Commander Taylor, the interests of American shipping will be carried on just as well as if Commander Taylor was there. It will only be a short time before they will all feel that they can dispense with my services. I undertook the work as much from a desire to build up an American merchant marine as anything else. That has been a hobby of mine for a great many years, although I never owned a share of steamship stock or a dollar of steamship property, or dealt in steamship property. I have just recently told a gentleman that I would take a little interest in a ship company of his that he proposed forming, but I have not done it yet. I will be glad to do it when the time comes.

Mr. EDMONDS. Can you render the same service, Commander, to the present merchant marine that Lloyds rendered?

Commander TAYLOR. We can, at the proper time. Now, there is a distinction between Lloyds and Lloyds Register. Mr. McGee has told you about the Lloyds shipping, but that is an entirely different thing from Lloyds Register. I have heard it said that the underwriters control Lloyds Register, but I do not know whether that is so and I do not care whether it is so. This I am sure of, that they work together for the advantage of British commerce, so I believe the underwriters in the American Bureau of Shipping, or if they fail, some other American classification society, must work together for the benefit of the American merchant marine.

My interest now is to put the American Bureau of Shipping in such shape that it can do for the American merchant marine what Lloyds has done for British shipping. But we have been handicapped, as Lloyds have been, by the extraordinary kind of business for the last two or three years, the extraordinary demands for the very kind of men that we need for instructors, and when I tell you that we have increased our force up to 180 or 190 men you can see that we have had to cull this United States for those men. However, it is not perfect yet; in fact, while the American Bureau of Shipping to-day is not perfect, it is a little more perfect than we expected it to be in view of the conditions.

Mr. LEHLBACH. Commander, have you any suggestion at all with regard to any legislation which you think would be helpful towards the development and growth and expansion of the bureau?

Commander TAYLOR. I am not sure, Mr. Chairman, that I can make any suggestion along that line. There is only one thing that I think must be done, and that is the establishment in this country of the legal load line. Now, we are placing the load line on all of these vessels that are being built under the class of the American Bureau of Shipping and also in the dual class, where both Lloyds and ourselves are classing the vesels, giving each vessel a class by ourselves. That system of dual classing is in accordance with the British Board of Trade Regulations, in addition to the establishment of a load line, so that it has got to be an international arrangement.

Now, we must have a law passed which will compel every seagoing vessel to have a load line. It seems to me that for all transoceanic service there must be one system established for a load line, and for our coast service, our gulf service, our lake service and Pacific coast service, because each of those services are entirely different from the others. There must be a different load line fixed for them, and there must be a load line established for the international transatlantic service. For that purpose I think there should be a load line for the present interoceanic trade and also for that trade which is coming to take the place of what it was during the war. There were many thousands of pounds spent upon a trade by English shipbuilders and underwriters that was passed over during the war, and now there must be a new load line for the trade that is coming back, and that load line must be more stringent than the old line. The time is coming when we must have a load line which must be established by the American Bureau of Shipping.

Mr. EDMONDS. We would have to have some legislation to enforce it?

Commander TAYLOR. Yes, sir.

Mr. EDMONDS. What has been the objection in the past to the establishment of load lines?

Commander TAYLOR. I will tell you, Mr. Edmonds. The objection arises mostly from the coastwise steamer, both here and on the Pacific coast, because they are short runs and they are loaded in certain ways; they are loaded sideways, in such a way that it is not allowable in trans-Atlantic service. They have been accustomed to a certain way of loading their ships and it would be difficult to make the change, and for that reason they do not want the change. For instance, they can carry a big load in some cases more easily near the top than down below. The objection comes mainly from the coastwise trade. That trade must be controlled by itself. All these trades must be considered by themselves because they all differ. The lake trade, for instance, has vessels that carry enormous loads with comparatively small power. They only run in the summer time and they only get into trouble when they attempt to run two or three days too late in the season, as in the one case in November, 1913. That can all be obviated, and I am quite sure that the lake people will recognize any reasonable load line regulation. As a matter of fact, there is a certain kind of load line regulation up there now, and that is the water line in the Livingston Channel.

Mr. EDMONDS. If we have nothing on the load line now except the English laws, perhaps it would be well to postpone any load line legislation until the English law gets under way.

Commander TAYLOR. No; I do not think so. I think that any vessel that goes down to South America should go under a load line. Now, there is a bill in the Senate, Senate bill 575, on the same subject, and also a House bill, practically the same, H. R. 3621.

Mr. LEHLBACH. Whose bills are those?

Commander TAYLOR. Mr. Alexander's bill in the House, and I think it has the same wording exactly as the Senate bill introduced by Senator Fletcher, from Florida. Those bills both provide that the load line shall be so marked on the vessel in such manner as the Secretary of Commerce shall direct. It puts it under the control of the Secretary of Commerce.

Mr. EDMONDS. Would this bill meet your bureau's approval?

Commander TAYLOR. Well, of course, I would like to cut out some lines in it, but I do not know but what it is alright.

Mr. EDMONDS. The English Government does not place the establishment of the load line in Lloyds Register?

Commander TAYLOR. It is in the hands of the Board of Trade, and the Bureau Veritas and the British Lloyds Register are named as competent authorities to approve the load line.

Mr. EDMONDS. Have they put you in there yet?

Commander TAYLOR. No, sir; they have not yet.

Mr. EDMONDS. Why not put it in the Shipping Board?

Commander TAYLOR. How long is the Shipping Board going to last?

Mr. EDMONDS. That is under permanent legislation. It is a permanent affair. It may be changed in the matter of the title, but it will be the same establishment. All the emergency legislation will come and go as the war has come and gone.

Mr. CHINDBLOM. There are no reciprocal relations now between you and Lloyds Register?

Commander TAYLOR. No, sir; except to this extent: When we made the contract, when we were invited down to Washington by Admiral Bowles when he was manager of construction of steel vessels, he sent for Mr. French and myself and told us that it had been determined that the fabricated ships in the yards at Hog Island and at Bristol and elsewhere were all to be built as a class, and we were to arrange the terms on which we would do that work, and he felt that there should be only one series of fees charged for testing materials.

Mr. CHINDBLOM. But they had representatives present when the classification was made?

Commander TAYLOR. Oh, yes; they had their surveyors in the yards all the time just as we did.

Mr. CHINDBLOM. Was it together or separately?

Commander TAYLOR. I would not say working together. I think in some instances we have had the testing of tanks done by a Lloyds man on one side while we were on the other side.

Mr. CHINDBLOM. What is the particular advantage of establishing a load line?

Commander TAYLOR. To prevent unscrupulous owners from overloading a ship and endangering the ship and the cargo.

Mr. CHINDBLOM. The only advantage of that would be to the insurance underwriters and to the crew?

Commander TAYLOR. I think that idea originally came from a member of Parliament named Plimsoll, who looked up the records and found that there were so many crews lost on account of overloading ships, and I think it all grew out of the question of the safety of the crew, and finally what they called the Plimsoll mark was adopted, but now the name Plimsoll has been dropped and it is called the load mark. After that law was passed there was a decrease in the number of vessels lost on account of overloading.

Mr. CHINDBLOM. Would it be better for us to pass legislation of this kind and leave it to some department of the Government to establish a load line, or could we not get up a bill saying just what the load line should be?

Commander TAYLOR. I think it would be impossible, because that is a variable question.

Mr. CHINDBLOM. It would be changed for every ship that came along?

Commander TAYLOR. Yes, sir; every ship would be different from the other, except in the case of all these fabricated ships under the Shipping Board, and even those ships may be changed from time to time. You would be surprised to see how many changes there have been in the size of ships, the construction of ships, by the United States Shipping Board since they started building ships. They are building from 10,000 tons to 30,000 tons. A question of that kind has got to be left to the department.

Mr. EDMONDS. Of course, we could not leave it to any semipublic concern like yourself?

Commander TAYLOR. Oh, no.

Mr. EDMONDS. We would have to leave it to the Secretary of Commerce?

Commander TAYLOR. You could determine the rules upon which the load line was to be made and then you could assign the American Bureau of Shipping as the legal authority to mark the ships. You could do that.

Mr. EDMONDS. That is legislation that we could pass now?

Commander TAYLOR. Yes, sir.

Mr. EDMONDS. It would not be affected by future developments?

Commander TAYLOR. No, sir. It could be changed by the Department of Commerce; in fact, Mr. Redfield commenced in 1915 to agitate this question of the load line, and he invited a number of shipowners and underwriters, and among others myself, and he made me chairman of a committee to determine this load-line proposition, but the war came on and everybody was too busy to take it up.

Mr. EDMONDS. The shipbuilders would not be interested in that at all?

Commander TAYLOR. No.

Mr. EDMONDS. The only people who would be interested are the people who are at present getting advantage of the overloading of ships?

Commander TAYLOR. Yes; and the general public.

Mr. EDMONDS. Oh, the general public, of course; but I meant that in taking up a bill of this character the only people we would have

to ask before the committee would be the shipowners, the insurance men, and the American Bureau of Shipping?

Commander TAYLOR. Oh, yes; and some of the builders would have some ideas on the subject.

Mr. EDMONDS. They would have ideas, but they would not have any objections?

Commander TAYLOR. No; they have raised no objection in any of those ships that we have put the load line on.

Mr. EDMONDS. Now, Commander, tell me something. You say you are rapidly building up to the point of efficiency to the same degree as Lloyds. Is there anything that you do not do at the present time that is very vital to the merchant marine of the country and that ought to be done?

Commander TAYLOR. No, sir; nothing that I know of. Lloyds have had the same disabilities that we have had in the last two or three years; that is to say, a year and a half ago, I think they had less than 40 surveyors, and we had as many as they had then in this country. Now they have increased it to 110. I understand that recently, due to cancellations, they have reduced their force somewhat.

Mr. EDMONDS. Now, they have the opportunity, through various agencies, to be of assistance to a ship when it gets into trouble?

Commander TAYLOR. In England the shipyards were more busy on war vessels than they were on merchant vessels.

Mr. EDMONDS. I mean supposing a ship was classed in your bureau and got into some trouble on some point, it could be taken care of?

Commander TAYLOR. Oh, yes; Lloyds can take care of them in England; Lloyds can take care of all their ships. They have exclusive surveyors in large ports of Europe. We have nonexclusive surveyors. We have surveyors in Shanghai and we have recently surveyed boats in Peru for the Shipping Board.

Mr. EDMONDS. But you can do that anywhere?

Commander TAYLOR. You can do it some times, but it goes too rapidly.

The CHAIRMAN. What do you mean by nonexclusive surveyors?

Commander TAYLOR. Men who are not on the pay roll receiving regular salaries. A nonexclusive surveyor does certain work of which the fee is a certain amount, 50 per cent or something of that kind.

Mr. LEHLBACH. So far as the work that they perform, their services are just as satisfactory?

Commander TAYLOR. Oh, yes; the nonexclusive surveyors in the foreign ports are very satisfactory. Some of them have been nonexclusive surveyors for years. I have in mind one at a certain port, and a friend of mine told me about his inefficiency and his habits, and he had to be dropped.

Mr. CHINDBLOM. Nonexclusive surveyors are doing work for others?

Commander TAYLOR. Oh, yes.

Mr. CHINDBLOM. You would not permit an exclusive surveyor to do work for anybody else?

Commander TAYLOR. Oh, no. The exclusive surveyor must work for us alone.

Mr. CHINDBLOM. Would the establishment of a load line affect the market value of a vessel?

Commander TAYLOR. No, sir; I think not. The load line at the present time has given the ships a larger dead-weight capacity than

their estimated weight. In other words, you can load them greater than the draft to which they were designed. I think that is so in many cases. It is not so in all cases. In the wooden ships it is a little different. I think they are a little bit less.

Mr. CHINDBLOM. I was wondering whether the fact that they could overload a vessel gave the vessel a larger commercial value because of the increased amount of cargo they could carry?

Commander TAYLOR. That is true if they do it, but the load line does not permit them to do it. We will put it this way: If there was a vessel constructed now in the United States without a load line and the load line reduced her draft of water, that would reduce her dead-weight cargo, and then the man who wanted to buy that ship would say: "I will only pay you on the basis of the dead-weight cargo that she can carry."

Mr. CHINDBLOM. I did not mean that we should take that into consideration, but it might be one of the arguments.

Commander TAYLOR. Oh, yes; of course. I think that every ship should be made safe, so far as humanly possible.

Mr. CHINDBLOM. What I was getting at was whether or not some of the opposition to the load line came from that source.

Commander TAYLOR. Well, I do not know.

Mr. EDMONDS. Have you any ideas or suggestions to make in regard to this bill?

Commander TAYLOR. Well, I may have.

Mr. EDMONDS. Just take it home with you and study it over and see what you think of it. You are a kind of semibeneficial organization, and not an organization for profit.

Commander TAYLOR. Yes; and I want to emphasize that.

Mr. EDMONDS. And we want to work along with you and help you build up your bureau.

Commander TAYLOR. I would be glad if you would do so.

Mr. EDMONDS. We would be very glad to see a bureau established over here like Lloyds.

Commander TAYLOR. I think it is bound to come.

Mr. EDMONDS. If we are going to have any merchant marine in this country it has to come.

Commander TAYLOR. In 1916 when I took hold of this bureau I made a prediction of that kind when there was a very limited amount of insurance placed in this country. I made the assertion before some of our people that the time was coming when the insurance would be placed in this country in our people, because in 1915 it was beginning to come our way, and the time is now coming when it will be so. The bankers will also go into the construction of ships. This company that I spoke of some time ago, that a friend asked me to come into, was really backed by a banker.

Mr. EDMONDS. American shipowners have the option to go into either your register or Lloyds?

Commander TAYLOR. Oh, we could not stop them very well. I wish we could.

Mr. CHINDBLOM. Do they go into both of them?

Commander TAYLOR. Yes; we have two cases like that now, for this reason. There is a firm on the Pacific coast building four vessels for themselves on their own speculation, and the first vessel—they do not say what they are going to do with the other three ves-

sels, but the first vessel they propose to put under the American Bureau of Shipping. They sent their plans to Lloyds, and Lloyds turned them over to us. I wired them to know why we had to play second fiddle to Lloyds, and they said that they were putting in such a large amount of money by having them registered in that way they could sell the ships to better advantage. But the time for that has gone by, and the sooner that kind of speculation goes by, the better.

Mr. CHINDBLOM. If you have in mind anything that we can do to assist in straightening out matters of that kind, we would like to have you give it to us.

Commander TAYLOR. I will be glad to assist you in any way possible.

Mr. CHINDBLOM. We will run several weeks on these hearings.

Commander TAYLOR. Yes; and about two weeks from to-day you will see me again. I am much obliged to you, gentlemen. I am also obliged to Mr. McGee for allowing me to speak at this time.

STATEMENT OF MR. W. H. McGEE—Continued.

Mr. CHINDBLOM. Mr. McGee, with reference to the matter of building ships, how is the builder's risk insurance usually carried? Where is it placed? Do you carry it? Do American companies carry it?

Mr. MCGEE. Yes; when they get the chance to.

Mr. CHINDBLOM. Are you carrying much of it now?

Mr. MCGEE. Not as much as we should.

Mr. CHINDBLOM. What has been your history in regard to that?

Mr. MCGEE. Builders' risk? I take it that you mean commercial vessels?

Mr. CHINDBLOM. Yes.

Mr. MCGEE. Brokers who handle that business will be very apt to send it to foreign markets. There has been comparatively little of it done in the American market. In fact, there has been so little of it done in the American market that the American companies have lost interest in it.

Mr. CHINDBLOM. Is there any particular reason for that?

Mr. MCGEE. None that I know of, except that that class of business has been in the hands of a limited number of brokers who have apparently had British affiliations rather than American.

Mr. EDMONDS. Have not some of our companies refused to take that business?

Mr. MCGEE. Yes; because they did not want to take it for the rates they were offered for it.

Mr. CHINDBLOM. Is there any prospect of improvement along that line?

Mr. MCGEE. During the past few years everything has been built for the Emergency Fleet Corporation, and the Emergency Fleet Corporation has carried its own risk, and the market has not been tried out. I do not know to-day what the market would do.

Mr. CHINDBLOM. Is the workmen's liability insurance carried on those ships?

Mr. MCGEE. That is something I do not know anything about. That is a different line of business.

Mr. EDMONDS. It is carried mostly under the State laws.

Mr. McGee. That is carried by liability insurance companies or casualty insurance companies or by some of the States who maintain their insurance fund.

Mr. Chindblom. I think you said something this morning about brokers making a profit aside from a commission which would be properly or legally due to them. Has there been much of that, say, in the city of New York?

Mr. McGee. There was quite a batch of cases of that kind in the city of New York, and it was entirely amongst those who were unfamiliar with the insurance business. They bought and sold something that was nonexistant. In order to effect marine insurance legally, there must be an insurable interest. That is to say, that the person whose name appears as the insured must have an interest in that venture. If he has no interest the insurance is useless.

Mr. Chindblom. But some brokers did seek to buy up the insurance, did they not, to corner it?

Mr. McGee. There were a group of brokers who went out without any order from anybody, without any authority from anybody, to place insurance. They placed insurance in their own name, or to whom it may concern, or in some fictitious name, and then after they had cornered the market they proceeded to watch and see who shipped cargoes on a particular vessel. They would then go to the shipper of merchandise who had endeavored to insure it and found he could not do it, and the broker would say, "I can sell you some insurance."

Mr. Chindblom. When was that?

Mr. McGee. Late in 1917 and early in 1918.

Mr. Chindblom. Did the insurance companies know that this was going on?

Mr. McGee. No; it was an accidental circumstance that led to disclosure of the facts. Then the insurance company would simply say, "Why, if you are not the one who owns the ship or an interest in it, the insurance is of no value, and if you sold it it had no value if it was sold."

Mr. Chindblom. Is it a common preformance to buy and sell insurance in that manner?

Mr. McGee. No, sir; it is not. It is only done by people who are ignorant of the fundamental principles of marine insurance.

Mr. Chindblom. What stopped it?

Mr. McGee. I believe some gentlemen got quarreling among themselves and somebody invited the insurance department of the State of New York to look into the matter, and the insurance department of the State of New York held an investigation and brought out the facts which a great many of us never heard of before. It appears to have been caught very early in its development.

Mr. Chindblom. Was not there some legislation passed?

Mr. McGee. There was, but the legislation which was passed did not do any more than the law which stood before it did.

Mr. Chindblom. Is there anything of that kind going on now in New York?

Mr. McGee. No, sir; there is not.

Mr. Chindblom. Is there anything else?

Mr. McGee. No, sir. There were a number of brokers attracted to the business by the large amount of money that was being handled. They knew nothing whatever about fundamental principles. They

knew nothing whatever about the practice in marine insurance. They know nothing about insurable interest, and therefore they had a great many things in mind and did a great many things that an ordinary intelligent broker would not have done.

Mr. CHINDBLOM. It was not all due to lack of intelligence; it was due to stupidity.

Mr. MCGEE. Yes; but stupidity, I doubt, would not have gone as far as they did unless they were ignorant of the principles of business.

Mr. CHINDBLOM. Is there anything within your knowledge now which would keep you from believing that this thing is going on now anywhere else at the present time?

Mr. MCGEE. No, sir; there is not.

Mr. EDMONDS. Some of these brokers did not confine themselves to New York insurance.

Mr. MCGEE. Oh, no; they established offices in Genoa, in Milan, and in Barcelona. They did the same thing in the English market and the London underwriters are up in arms over improperly placed insurance which shut the legitimate type out of the open market.

Mr. EDMONDS. Has that been pretty well stopped now, everywhere?

Mr. MCGEE. It has, because exposure to the air settled the question. Everyone is familiar with the facts now and would not fall for it.

Mr. EDMONDS. In other words, it was an illegal policy; they did not want an illegal policy and went to the regular companies to get a policy?

Mr. MCGEE. Yes: in a great many cases. I get inquiries even now, at intervals, from bankers or consignees in foreign countries, wanting to know the facts, wanting to know if such and such a rate was paid. A great many cases have come to our attention where brokers have placed such insurances, and the merchants were scouring the market to place the insurances when they found that shippers were inquiring for insurance. I would want to know from a broker what authority he had to place that assurance, and he would say none; that he placed it on speculation. I would tell him that they had no existing insurance; that the insurance was invalid and had no value of any kind.

Mr. EDMONDS. Did the companies take that stand and just simply wipe them out, then?

Mr. MCGEE. Surely.

Mr. EDMONDS. And did they make losses on it, or were they reimbursed their money?

Mr. MCGEE. Rarely was any money paid.

Mr. CHINDBLOM. It was practically an option?

Mr. MCGEE. Practically taking an option; yes. You do not catch a broker playing that game and putting up money, too.

Mr. EDMONDS. There is no practice of that kind that you know of now?

Mr. MCGEE. I know of none. It is absolutely illegal. When the facts are brought out it settles itself.

Mr. CHINDBLOM. Do you know of any combinations in foreign countries now along this same line?

Mr. MCGEE. Just what do you mean by "combinations"?

Mr. EDMONDS. In connections with this speculative purchase of insurance?

Mr. CHINDBLOM. Brokers' combinations.

Mr. MCGEE. No; I do not.

Mr. CHINDBLOM. What we are trying to get at is whether that conditions has been wiped out effectively everywhere, so that it does not exist now, either in this country or anywhere else.

Mr. MCGEE. So far as I know, it has been wiped out.

Mr. CHINDBLOM. In London, for instance, and elsewhere?

Mr. MCGEE. Yes.

Mr. CHINDBLOM. Are there any operators in Barcelona or Madrid?

Mr. MCGEE. None that we know of. I think the companies who operated in Barcelona, Madrid, and Genoa, and so forth, burned their fingers so thoroughly and involved the merchants that trusted them so thoroughly that I do not believe you can talk foreign insurance of that kind to any intelligent merchant in New York City.

Mr. CHINDBLOM. With reference to the number of American companies now engaged in the business, as compared with a few years ago, I think you gave us some figures this morning, which I do not recall just now, but I understood you to say that at the present time there were probably 150 to 175 companies. I presume naturally some of them are of soap-bubble character, are they not?

Mr. MCGEE. I should not be at all surprised to find that there are quite a great many bubbles. I believe there are quite a good many companies that have real money behind them, which ought not to be classed as bubbles, but the underwriting management of those companies is such that they can not survive, because they are selling their insurance at less than it costs them.

Mr. CHINDBLOM. Have you yourself any notion or opinion as to how many good American companies there are now—I do not ask you to name them, of course—but of the 175, how many, given in percentage approximation or in any other way, are good companies?

Mr. MCGEE. Any American company that is formed under the laws of the State of New York, the State of Massachusetts, the State of Pennsylvania, the State of California, and a number of other States must be sound. When they are formed, if they meet the measure which the government of those States, the insurance departments of those States, lay down, you have a perfectly good, sound company, one that can not be questioned from any financial point of view. The difficulty arises in the management being inefficient and inexperienced, and it so becomes afterwards that the company becomes involved.

Mr. CHINDBLOM. Do you know approximately how many companies there may be or what percentage there may be which have become thus involved since their organization?

Mr. MCGEE. No; I have not formed any conclusion on that.

Mr. CHINDBLOM. Have you any opinion on it?

Mr. MCGEE. No; I have not.

Mr. EDMONDS. Presumably a good many companies would withdraw from the marine insurance business, if they were not successful, and go over to other business.

Mr. MCGEE. Well, quite a few have lost a good deal of money. There is one feature that some of us have given some thought to, which really goes along another line of thought, and that is that some of these American companies may have their ownership in

some foreign nation, and that the underwriters of some foreign country will be operating American insurance companies, and there will not any of us know much about it until the odium has passed over.

Mr. CHINDBLOM. Do you think that capital existing in the United States may thus have been transferred into apparently American organizations?

Mr. MCGEE. I doubt that, but I should not be surprised if gentlemen of a speculative turn of mind, with an eye to the future, would say, "Well, you can build an insurance company on speculation just as you build ships on speculation," with the idea of selling it in the future.

Mr. CHINDBLOM. Selling it to foreign capital?

Mr. MCGEE. Yes.

Mr. EDMONDS. Were the rates on this hull business cut to such a point by foreign countries as to make them unprofitable?

Mr. MCGEE. Yes; there is no question about that. The American marine insurance companies are badly handicapped by the very low rates at which the English market is writing business; and the English market is doing it deliberately for the purpose of driving the American companies out and with the idea of controlling the business again, as they once did, after the American companies are driven out.

Mr. EDMONDS. In other words, they are writing our ships at a lower rate than they do their own?

Mr. MCGEE. Yes; in the London offices. The London offices of a great many companies which are admitted to do business in the United States are writing American business at lower rates than that company's own branch office in New York will write them. There are some British companies admitted to do business in the United States, who do not write their hull business here at all, but write it entirely in London.

Mr. EDMONDS. And their New York office will not have the rate that they make?

Mr. MCGEE. The New York office has not the authority to bind them; they do not write that class of business. It is all written in London.

Mr. EDMONDS. What can we do to stop that?

Mr. MCGEE. I do not know.

Mr. CHINDBLOM. That is an old habit which they acquired soon after the Civil War, is it not?

Mr. MCGEE. Yes. The American companies were driven out of business. One of the reasons for present-day conditions in the marine insurance business in this country is the fact that the American marine insurance companies were one by one driven out. In many cases it was due to dry rot, and in many cases it was due to absolute competition right in this market by foreign companies, not only British companies, but companies from other countries.

When I first came into the marine insurance business in New York, as a small boy——

Mr. CHINDBLOM. How long ago was that, Mr. McGee?

Mr. MCGEE. You press me hard. However, it was 35 years ago.

When I first came into the marine insurance business with the brokerage firm of Wreak & Chubb, in 1881, there were 12 or 13 New York State companies transacting marine insurance business; there were 15 or 20 in Boston; there were 3 in Providence; all of which I

knew, as office boy, of course, because our brokerage firm was doing business with all of them. Of those New York companies, but one is left, the Atlantic Mutual. Of the large number of Boston companies but one is left, the Boston Insurance Co. Of the three in Providence the only one left is the Providence-Washington Insurance Co. On the Pacific coast there were 8 or 10, and they have all been driven out of business by these measures.

Mr. CHINDBLOM. While I am sorry to have pressed the gentleman, I think that this is very illuminating.

Mr. EDMONDS. Has there ever been a time when the Lloyd people charged a higher rate for insurance on American hulls than they did on English hulls?

Mr. MCGEE. Yes; when there was no market in America. Prior to 1910 it would be a difficult thing to place more than 10 or 15 per cent of the valuation of an American-owned hull. Of course, they were not large vessels in those days, and there were not many of them. I remember the Ward Line, and I think the top valuation there was something like six or seven hundred thousand dollars, and when I say the "top valuation" I mean the vessel with the highest valuation in that ownership.

Mr. LEHLBACK. I have before me a list of insurance companies which are members of the Association of Marine Underwriters of the United States. A large number of them, by title, show that they are fire insurance companies. Are all of these companies at the present time on the market and in the business of writing marine insurance?

Mr. MCGEE. That association is composed of Americans to the core. In other words, it was formed with a view of bringing together—with no particular purpose at that particular time, but looking more to the future, I think—the companies which are owned by American capital and managed by Americans. There are quite a good many American insurance companies which are owned by foreign companies. There is hardly a British company but what owns three or four American annexes or feeders.

Mr. LEHLBACK. What I want to know is, would all those companies consider and accept marine insurance risks if presented to them?

Mr. MCGEE. Yes.

Mr. LEHLBACK. I happened to notice this list. The American Insurance Co. and the Firemen's Insurance Co. are both concerns in the city in which I live, the city of Newark, N. J.

Mr. MCGEE. Yes.

Mr. LEHLBACK. This is the first information I have had that they were marine companies. I know the people comprising those companies. I know the general officers of the Fireman's Co. very well, every one of them, personally, and I never knew them to write marine insurance.

Mr. MCGEE. They have only taken it up within the past two or three years. I will venture to say that 90 per cent of the membership of that association is made up of companies which have come into the marine insurance game within three years.

Mr. LEHLBACK. Do they restrict their marine risks to cargo, or will they write hulls?

Mr. MCGEE. They write hulls and cargo.

Mr. LEHLBACK. That is good news.

Mr. McGee. All they want is encouragement.

Mr. Edmonds. During your long connection with the insurance business, have you ever known the Lloyd Registry to discriminate against American ships?

Mr. McGee. No; I do not think they do in such a way that we could point to it. I have no suspicions, even, of a case of that kind. I should say that Lloyd's Registry partakes of an international character, and is apt to be pretty fair in its ratings. I am inclined to think it is, and would class it as eminently fair. There is nothing to be gained by it. Notwithstanding that. I think perhaps there may be ways in which they can divert construction to British yards, and they might do that; but when it comes to the classification of the American-built vessels, I should be inclined to think that they are perfectly fair.

Mr. Edmonds. What sort of protection do you get out of this section of the Shipping Board act, this permanent legislation by which we try to prevent discriminating insurance? Can not American companies get any protection out of that?

Mr. McGee. I am not clear as to how they could.

Mr. Edmonds. It refers to common carrier by water or persons subject to this act, which are subject to the penalty also. It says there:

> To induce, persuade, or otherwise influence any marine insurance company or underwriter, or agent thereof, not to give a competing carrier by water as favorable a rate of insurance on vessel or cargo, having due regard to the class of vessel or cargo, as is granted to such carriers or other persons subject to this act.

Mr. McGee. I do not see how we get any protection.

Mr. Edmonds. Ought we not to arrest some of the shipping men that take this cheap English insurance, which is discriminating?

Mr. McGee. It is discriminating. So far as it is done, so far as an American owner does it, he is depriving the United States Government of the tax, the Government gets no premium tax, no income tax, no excess-profits tax. That is one reason why they get a lower rate in Europe. I do not know how you can reach a condition of that kind except through the question of taxation. There is one way in which a great deal of that can be cured, and yet it would not go very far, because the burden can be taken off one set of shoulders and put upon another set of shoulders which are not within the reach of our courts.

One of the provoking evils of the hull business that New York underwriters, whether they be Americans or British, have suffered from, is the writing of American hulls by foreign officers of companies that are admitted to do business in this country. The State of New York accords to certain foreign countries the privilege of doing business, of transacting marine insurance business in the State of New York. Of course that is as far as the State of New York can go. Now, these companies, by reason of that admission, claim certain rights, and I think, in common equity, that they are entitled to those rights. They have been given certain privileges, and now they are entitled to claim them. But that self-same company, through another set of officials, will take that business out of this market and place it over somewhere else where they escape the obligations which should follow the company which has been admitted to do business in this country.

Mr. LEHLBACH. Could you not compel a company admitted to do business in the United States, when it accepts business tendered in this country or originating there, to write it through their local offices?

Mr. MCGEE. That is supposed to be the effect of the New York State laws, but we all of us know that that is not being complied with. We all of us know that the British insurance companies which are transacting business in New York are writing hull business at deliberately cut rates for the purpose of breaking down the market here. They are doing that in London, Liverpool, and they may be doing it somewhere else; but always outside of the United States. Of course, one way in which that can be reached and prevented is to have the facts presented and the evidence presented to the insurance commissioner of the State of New York, for instance, who has the power to revoke their licenses. But it comes back to a question of practical, sound business. How are you going to get the evidence? Who of us are going to peach on the next-door neighbor because his brother in a foreign country is doing something we do not like to have done? And so it keeps going on.

Mr. LEHLBACH. Is this feasible, or is the volume of business too large to make it feasible—to compel the broker to record somewhere, either with the commissioner of insurance or in some recording office or bureau, the insurance risks that he places outside of the country?

Mr. MCGEE. That is practicable.

Mr. LEHLBACH. Make them make a record of it.

Mr. MCGEE. It is practicable to make the broker pay that tax; but, Mr. Broker, of course, will fight that; and Mr. Broker is generally very powerful, because his ship-owning friends come along and help him.

Now, the insurance broker has what he thinks is a perfectly fair answer to that argument or condition which I mentioned, and that is this: He will say that if you do anything of that kind you are practically giving the American insurance companies or the American market a monopoly of the business, and the tendency of a monopoly is to raise the rates; and the shipowner is helpless to save himself, because he is practically forbidden to seek a cheaper market. That is a half truth.

Mr. LEHLBACH. If he simply recorded his transactions for information, in order to detect violations of law, it would not give a monopoly to the American companies?

Mr. MCGEE. No.

Mr. LEHLBACH. I simply say it would compel him to make a record of his foreign business.

Mr. MCGEE. And to pay the tax.

Mr. LEHLBACH. If the payment of the tax would create a monopoly, that might be a different situation.

Mr. MCGEE. It puts them on a parity.

Mr. LEHLBACH. If the rates in foreign countries are less, it would not establish a monopoly, because it would not be any greater burden to the foreign business than there is on the present basis.

Gentlemen, there is a roll-call order. It is not a roll of the House, and therefore there is no opportunity to answer if you are not present when your name is called.

The committee will now adjourn until to-morrow, Thursday, July 17, 1919, at 11 o'clock a. m.

MARINE INSURANCE.

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF COMMITTEE ON THE
MERCHANT MARINE AND FISHERIES,
Washington, D. C., Thursday, July 17, 1919.

The subcommittee met at 11 o'clock a. m., Hon. Frederick R. Lehlbach presiding.

Mr. LEHLBACH. I believe that at the conclusion of the hearings yesterday we had an arrangement to hear Commodore Bertholf this morning.

STATEMENT OF COMMODORE E. P. BERTHOLF, VICE PRESIDENT OF THE AMERICAN BUREAU OF SHIPPING.

Commodore BERTHOLF. There is nothing I can say particularly, unless some one wants to ask questions; Mr. Taylor covered the ground so far as the American Bureau of Shipping is concerned and covered it very thoroughly. There is nothing further for me to add to that, except that I would like to urge the matter of the load line which he brought up yesterday. A bill was introduced in this session, and at the last session, establishing the load line, and it has always seemed to me that is most important. The American Bureau of Shipping is now marking the load line for the ships built for the emergency fleet, but the load line is not compulsory under the law. Other countries have a compulsory load line, but this country has not; and it ought to be marked by the American Bureau of Shipping just as it is marked on the other side by the Lloyds Registry.

Mr. LEHLBACH. Endeavors to secure load-line legislation in the past have been made in this country, have they not?

Commodore BERTHOLF. Sort of desultorily, but never wholeheartedly.

Mr. LEHLBACH. And they have met with more or less determined and effective opposition. If you have the knowledge, will you kindly tell the committee the motive and source of this opposition to this load-line legislation?

Commodore BERTHOLF. I can not see that any opposition would come from anybody except the operators of a ship. The load line is for the purpose of preventing the vessel from proceeding to sea with a load that is not too great for it, and of course that means safety of cargo and safety of the ship and of the lives of the people on board. No one is interested in overloading a ship except those who operate the ship; because the deeper they load the ship, the more cargo money they get. Prior to the war, there was practically no occasion for

mandatory load line for vessels going overseas, because we had practically no overseas merchant marine. Of course the English law provided for a load line—a "plimsoll mark," as it was called—which applied only to English ships. But later they passed laws extending it to foreign ships loading in English ports. But that in turn did not affect us, because we had practically no ships loading there, so that the thing has not come up in a good many years. Now, of course, since American shipping has greatly increased, that question of the load line becomes important.

Mr. LEHLBACH. The shipping flying the American flag at the present time, and proceeding to an English port with cargo, and discharging and taking a return cargo, has got to have a load line marked on it?

Commodore BERTHOLF. That is the English law.

Mr. EDMONDS. Is it carried out by the English Government?

Commodore BERTHOLF. I think that never came up in any way to embarrass any one prior to the war, because all we had were the American line ships. But after the war began and we commenced building up ships over here, then ships flying the American flag and carrying cargo did arrive at English ports, and, of course, they had to have the load line marked on them, because that is the law over there. and it is a very good law. I do not think it is embarrassing now because the ships built in this country, prior to the signing of the armistice, were built by the Emergency Fleet, and they require the load line for their ships. Our law does not require the load line, but the Shipping Board does, and it is marked under the rules promulgated by the British Board of Trade, so that the load line marked now by the American Bureau in this country is marked just the same as English vessels are marked.

Mr. LEHLBACH. How about other maritime countries, France and Scandanavia?

Commodore BERTHOLF. They have load-line laws.

Mr. LEHLBACH. Do their load lines correspond with the English load lines, or is there a variation?

Commodore BERTHOLF. Not entirely. There is a difference so that when the International Conference on Safety at Sea was meeting in London, the question was brought up, and it was decided to have a subsequent international conference to deal with the load-line question. It is a tremendous question. And that was in process. The English had a load-line committee investigating the subject, and the Secretary of Commerce did the same here, but, of course, it was all suspended during the war.

Mr. EDMONDS. Do the Dutch ships have to comply with the English law relating to the load line when they touch at their ports?

Commodore BERTHOLF. I can not answer that particularly, but I do know that unless the Dutch accept the load line on English ships, which is marked under the English law, the Dutch load lines will not be accepted by England.

Mr. EDMONDS. In other words, they do accept the load lines of other countries, then?

Commodore BERTHOLF. Oh, yes; provided they accept the English load line.

Mr. LEHLBACH. Isn't it like this: If the Dutch load line admits of a lesser load than the English law limits, of course, it is acceptable.

But supposing the Dutch would allow, by their load line, a greater lading of the ships than the English law permits, would England then accept the Dutch load line?

Commodore BERTHOLF. I can not answer that; but I do not believe that it is based entirely on those questions, but on the question of the maritime importance of the country with which they are dealing and international comity.

Mr. LEHLBACH. And whether it renders nugatory the English law by permitting them to load beyond the capacity fixed by the English regulations?

Commodore BERTHOLF. In this load-line bill now before Congress, it provides for that particular feature; that is, it covers that ground:

> That whenever the Secretary of Commerce shall certify that the laws and regulations in force in any foreign country relating to load lines are equally effective with the regulations established under this act, the Secretary of Commerce may direct, on proof that a vessel of that country has complied with such foreign laws and regulations, that such vessel and master and owner shall be exempted from compliance with the provisions of this act.

Mr. LEHLBACH. You say if they are equally effective. That means that they afford the same degree of protection?

Commodore BERTHOLF. In the opinion of the country that has the matter to decide.

Mr. CHINDBLOM. From what did you read, now, for the purpose of the record?

Commodore BERTHOLF. That is H. R. 3621.

Mr. EDMONDS. That is the bill Capt. Taylor was asked about yesterday, and said he would give us in writing his comments on the bill. That is right, isn't it?

Commodore BERTHOLF. True, that is just the same bill.

Mr. ALEXANDER. The only effective way to treat this question is by international agreement, is not that so?

Commodore BERTHOLF. Yes, sir; undoubtedly.

Mr. ALEXANDER. At the International Conference on Safety at Sea, as you say, provision was made that that should be one of the subjects to be considered at the next conference which was to be held in five years.

Commodore BERTHOLF. While the only way to arrive at that is by international conference, still the United States can go into that conference much better if they are backed with a law of this sort on their part.

Mr. ALEXANDER. I agree with you that we ought to have legislation and not to wait for that conference.

Mr. CHINDBLOM. You said the Emergency Fleet Corporation put load lines on all vessels built by them?

Commodore BERTHOLF. Yes.

Mr. CHINDBLOM. Did the Shipping Board put a load line on the vessels leased by it?

Commodore BERTHOLF. That I can not say, but I think it is fair to presume they have required load lines on all vessels they had to do with. You are speaking of the vessels leased; you mean American vessels leased?

Mr. CHINDBLOM. Leased by the Shipping Board.

Commodore BERTHOLF. I have no doubt that the vessels the Shipping Board have commandeered, leased, and sent abroad, to go into

foreign ports where laws require a load line, all have load lines marked on them before they go.

Mr. EDMONDS. Has the American Bureau done all of the Shipping Board's work?

Commodore BERTHOLF. No, sir.

Mr. EDMONDS. Who else has done it?

Commodore BERTHOLF. The British Lloyds.

Mr. EDMONDS. Why?

Commodore BERTHOLF. That is the desire of the Shipping Board—the Emergency Fleet Corporation. It was apportioned betwen the two societies. The American Bureau attended to the load line on all ship classed by it and on all ships dually classed. Lloyds marked load lines only on the ships exclusively classed by that society.

Mr. EDMONDS. Did you get the major portion of it?

Commodore BERTHOLF. We have the major portion of it now. At first we did not have.

Mr. LAZARO. Was the American Bureau equipped to do all the work?

Commodore BERTHOLF. In the beginning, no; neither was the British Lloyds. But it did equip itself to do all that was required of it, and, of course, it wanted to do it all. It desired to do all of the classification, naturally.

Mr. CHINDBLOM. Was the apportionment based upon the facilities or equipment?

Commodore BERTHOLF. That I can not say.

Mr. LAZARO. But you are prepared to do it all now?

Commodore BERTHOLF. Yes, sir.

Mr. LEHLBACH. I believe your force, exclusive of surveyors, has been increased in the last three years from 5 in number to 180?

Commodore BERTHOLF. Yes; that is exclusive of surveyors in this country.

Mr. EDMONDS. How is your bureau supported?

Commodore BERTHOLF. It is supported entirely by the fees.

Mr. EDMONDS. Where do these fees come from?

Commodore BERTHOLF. They come from the surveys of the ships in process of construction and the inspection work and the resurveys periodically. Those fees are paid by the shipbuilder unless the contract says they are to be paid by the shipowner.

Mr. EDMONDS. In your connection with the insurance work, the underwriters work, who pays the fee to you? You do work in connection with the underwriters, don't you?

Commodore BERTHOLF. The American bureau's work is done for the shipowner, the shipbuilder, and the underwriter.

Mr. EDMONDS. For the shipowner?

Commodore BERTHOLF. And the underwriters place their insurance with due regard to the risk as classified by our bureau.

Mr. EDMONDS. There is no portion of your fees which in any way comes from or has an effect on the insurance?

Commodore BERTHOLF. Of course the American bureau gets its fees for examining, inspecting, and surveying the ships, and then giving its class, and that class is very important to the insurer, to the underwriter, when he places the risk. But, of course, that has nothing to do with our fees.

Mr. EDMONDS. But it is really information that costs the underwriter virtually nothing?

Commodore BERTHOLF. Certainly. But it is not only for the information of the underwriter; the owner can not get his ship or the cargo in that ship insured unless it is classed, because an underwriter may be asked to place a risk on that ship when it is in a far distant port, and he does not know and he can not examine the ship himself. It is impossible to do business without classification, and consequently they look in the registry book to see how that ship is classed.

Mr. LEHLBACH. Do you examine any ships in case of damage and estimate the loss? Is that part of your work, if you are called upon to do it?

Commodore BERTHOLF. Yes. A vessel is classed, say, by the American bureau, and sustains a damage which requires it to go on the dock, or some material damage. They call in the American bureau's surveyor so that he can report on the work and, as that damage is repaired, see whether the repairs are made in such shape as to entitle her to continue her class. And, of course, a fee is paid for that.

Mr. LEHLBACH. And that is to see after the loss is adjusted that the work to make good the damage is proper work?

Commodore BERTHOLF. True.

Mr. LEHLBACH. But do you accept employment by shipowners to make a survey of a vessel after it is damaged in order to estimate or report on the amount or percentage of the loss?

Commodore BERTHOLF. No; not as a bureau. Sometimes a surveyor will have permission from the bureau to do that in his private capacity for the benefit of the owner. But that is not the American bureau's work at all.

Mr. LEHLBACH. Does the Lloyds registry engage in that kind of work in behalf of the owner?

Commodore BERTHOLF. I think not.

Mr. LEHLBACH. In order to estimate the loss?

Commodore BERTHOLF. I think not.

Mr. CHINDBLOM. Do you give permission to an exclusive surveyor to do that?

Commodore BERTHOLF. At times; yes.

Mr. EDMONDS. I think that that is a good thing.

Commodore BERTHOLF. Yes.

Mr. LEHLBACH. Why is it not feasible, Commodore, for both Lloyds, so far as the British ship is concerned, and you, so far as American ships are concerned, if you are equipped with the force not only in this country but in foreign countries, to make surveys for other purposes; so that when a loss occurs your bureau, being an impartial bureau, could examine a ship and report as to a loss, and have such a report given due weight in the adjustment of the loss?

Commodore BERTHOLF. I think that is going a bit beyond the function of a classification society.

Mr. ALEXANDER. Is it not true that the American Bureau of Shipping and the British Lloyds, their function is to survey a ship with reference to her seaworthiness and classification, as a basis for marine insurance: and, if they were to engage in this other work, it might in the long run question their impartiality and impeach their word.

Commodore BERTHOLF. That is correct. As you very truly say, the function of a classification society is to examine vessels while building to determine the class to which they are entitled and to give a class as to the structural integrity for the service which the ship is expected to perform. Beyond that they do not go. Of course, as the vessel gets along in years, it must be surveyed again periodically to see if it continues to be in good shape and, when damages have occurred and repairs have been made, to see whether she is entitled to continue in that class, because it is on that classification that insurance is based and business is done. And when a man sells a vessel, the purchaser wants to know the class of that vessel because that gives him an idea of the structural integrity of the vessel. That is what the classing is for.

Mr. CHINDBLOM. It is not primarily for the purpose of assisting in placing insurance, is it; it is to give a classification to the ship for all purposes?

Commodore BERTHOLF. Of course. But insurance is the main thing. A vessel is classed, and the best class, of course, +A–1–(E), means that she is in first-class condition, properly equipped and fit to go to sea and to carry dry and perishable cargo to all parts of the world. Another vessel may be classed for coastwise trade. That indicates she ought not to be sent abroad, and if she were to be allowed to be sent abroad I doubt if the insurance people would insure her. They are governed by the class for the structural integrity of the ship.

Mr. EDMONDS. You have, we will say at Buenos Aires, probably, an exclusive surveyor?

Commodore BERTHOLF. Probably.

Mr. EDMONDS. Now, this exclusive surveyor does no other work excepting your work?

Commodore BERTHOLF. He is not permitted to work for anybody else excepting us.

Mr. EDMONDS. And only in this line?

Commodore BERTHOLF. In this line.

Mr. EDMONDS. He can not take other work?

Commodore BERTHOLF. I think not.

Mr. EDMONDS. You have just employed the man for this work alone?

Commodore BERTHOLF. We would not have an exclusive surveyor unless we had enough to keep him busy; and when we have an exclusive surveyor he has ample work to keep him busy.

Mr. CHINDBLOM. And he is paid a salary?

Commodore BERTHOLF. He is paid a salary. Of course, a nonexclusive surveyor is paid a fee when he performs those services, but, as Capt. Taylor said yesterday, a nonexclusive surveyor might also be a nonexclusive surveyor for some other classification society.

Mr. LEHLBACH. I understand that classification societies do not exist for the purpose of making profits?

Commodore BERTHOLF. Not at all; that is not their purpose.

Mr. LEHLBACH. It is just like a savings institution—simply to accommodate a certain public need?

Commodore BERTHOLF. The classification society is formed in the interest of the shipowners, the shipbuilders, and the ship operators, and insurance men, and all those things which touch the American

merchant marine; and our members are shipowners, shipbuilders, and operators.

Mr. CHINDBLOM. And also in the interest of charters?

Commodore BERTHOLF. That comes in in the operators.

Mr. EDMONDS. Do you have a legal organization?

Commodore BERTHOLF. Oh, yes.

Mr. EDMONDS. I mean, are you incorporated?

Commodore BERTHOLF. We are incorporated in the State of New York.

Mr. EDMONDS. And you have a president and a board of directors?

Commodore BERTHOLF. A president and a board of managers.

Mr. EDMONDS. And members?

Commodore BERTHOLF. A board of managers, it is called, and then the executive committee, a secretary, and all that.

Mr. EDMONDS. Will you give us the names of all the people you have?

Commodore BERTHOLF. I will put them in the record. I can not remember them now.

Mr. EDMONDS. Put them in the record and give us their occupations?

Commodore BERTHOLF. Yes.

AMERICAN BUREAU OF SHIPPING.

OFFICERS.

President, Stevenson Taylor, retired ship and engine builder.
Vice president, E. P. Bertholf, retired Coast Guard officer.
Vice president C. A. McAllister retierd Coast Gaurd officer.
Vice president, A. C. Pessano, president Great Lakes Engineering Works.
Vice president. F. G. Macomber, of F. G. Macomber Co. (Insurance).
Vice president, W. H. Todd, shipbuilder, Todd Shipyards Corporation.
Vice president. L. F. Burke, vice president Marine Department Home Insurance Co.
Secretary, J. W. Cantillion, American Bureau of Shipping.

BOARD OF MANAGERS.

Herbert Appleton, Director United States Lloyds (Insurance).
John S. Ashley, Great Lakes Carriers Association, Cleveland, Ohio.
George J. Baldwin, American International Corporation.
E. P. Bertholf, American International Corporation.
Louis F. Burke, American International Corporation.
Eugene P. Carver, Proctor in Admiralty and former shipowner.
William G. Coxe, shipbuilder and naval architect, Wilmington, Del.
Peter H. Crowell, Crowell & Thurlow S. S. Co.
William A. Dobson, William Cramp & Sons.
Homer L. Ferguson, Newport News Shipbuilding & Dry Dock Co.
P. A. S. Franklin, International Mercantile Marine Co.
William R. Hedge, Boston Insurance Co.
Charles L. Hutchinson, Hutchinson & Co. (Transportation), Cleveland, Ohio
William Livingstone, Great Lakes Carriers Association, Detroit, Mich.
Frank Gair Macomber, Great Lakes Carriers Association, Detroit, Mich.
Charles E. Mather, Mather & Co. (Insurance).
C. A. McAllister, Mather & Co. (Insurance).
William H. McGee, William H. McGee & Co. (Insurance).
Cornelius Eldert, Atlantic Mutual Insurance Co.
J. J. McGivney, Automobile Insurance Co. (Marine).
Edward P. Morse, shipbuilder, Morse Dry Dock & Repair Co.
Frank C. Munson, Munson Steamship Co.
Walter Wood Parsons, Atlantic Mutual Insurance Co.

Marvin A. Neeland, New York Shipbuilding Co.
A. C. Pessano, New York Shipbuilding Co.
Clayton Platt, Insurance Co. of North America, New York.
Joseph W. Powell, Bethlehem Shipbuilding Corporation.
William A. Prime, Willcox, Peck & Hughes. (Insurance).
H. H. Raymond, Clyde-Mallory S. S. Co.
Benjamin Rush, Insurance Co. of North America, Philadelphia.
R. P. Schwerin, retired ship operator.
Charles Skentelbery, Warren Transportation Corporation.
Alfred Gilbert Smith, New York & Cuba Mail S. S. Co.
John H. J. Stewart, retired marine insurance underwriter.
E. Platt Stratton, retired naval architect.
Stevenson Taylor, retired naval architect.
William A. Thompson, jr., Texas Co. (marine department).
William H. Todd, Texas Co. (marine department).
Harry A. Wheeler, Union Trust Co., Chicago, Ill.

EXECUTIVE COMMITTEE.

* Walter Wood Parsons.

*Homer L. Ferguson.
*William R. Hedge.
*Charles E. Mather.
*William H. McGee.
*Joseph W. Powell.
*William A. Prime.
*Alfred Gilbert Smith.
*William A. Thompson, jr.

FINANCE AND AUDIT COMMITTEE.

* Charles E. Mather.

*Frank C. Munson.
*Walter Wood Parsons.

CLASSIFICATION COMMITTEE.

* H. H. Raymond.

*William G. Coxe.
W. J. Davidson, Staten Island, S. B. Co.
Edgerton Parsons, Parsons & Eggert, Insurance.
*Edward P. Morse.
*Frank C. Munson.
*William H. Todd.
*Alfred Gilbert Smith.
Edgar F. Luckenbach, Luckenbach S. S. Co.

Mr. EDMONDS. And then you have members, of course?

Commodore BERTHOLF. Yes, members.

Mr. EDMONDS. Do they pay membership fees?

Commodore BERTHOLF. No.

Mr. EDMONDS. No membership fees?

Commodore BERTHOLF. We do not have to have any membership fees; we get the fees for the services rendered. To be sure, if at any time any classification society did not receive enough income to pay its expenses, somebody would have to dig down to get that money. That would come from the members; they would have to contribute.

Mr. EDMONDS. Members of the board or members of the society?

Commodore BERTHOLF. The members of the society would have to contribute.

Mr. EDMONDS. If a man does not belong to the society, and yet owns ships, do you do work for him just the same?

Commodore BERTHOLF. Oh, yes. That has nothing to do with it.

Mr. LEHLBACH. That is of no practical advantage to the society except, in so far as he has membership, he has a voice in its administration.

Commodore BERTHOLF. Yes; and then the representative men of these different interests must take an interest in the classification

society and become members and take an active part in order to foster the organization. It is a cooperative thing, you see.

Mr. EDMONDS. What are the qualifications for membership in the association—nothing at all? Can anyone make application—and if he is a reputable man, he can join?

Commodore BERTHOLF. So long as he is reputable and his business connects up with this, he can become a member. The membership is limited to 100.

Mr. EDMONDS. He does not have to pay any initiation fees?

Commodore BERTHOLF. No, sir.

Mr. ALEXANDER. This American bureau is made up of shipowners and shipbuilders, and the fees come from them?

Commodore BERTHOLF. The fees come from them.

Mr. ALEXANDER. Any shipowner may be a member of the bureau?

Commodore BERTHOLF. Oh, yes; of course.

Mr. ALEXANDER. And for that reason they are apt to see that only competent men are employed as officers and surveyors by the bureau and that the cost of the survey shall be ample to assure them of good work?

Commodore BERTHOLF. Certainly.

Mr. ALEXANDER. And it is not organized for profit, but it is a mutual concern?

Commodore BERTHOLF. It is a mutual concern.

Mr. ALEXANDER. They have to have ships insured?

Commodore BERTHOLF. They have to have ships insured.

Mr. ALEXANDER. And they have to have them surveyed and classed by a bureau that is reputable and that does good thorough work, before the marine insurance companies will accept their services?

Commodore BERTHOLF. Certainly. And the classification society can exist only if it is efficient; that is all; and it is to the interest to all the members of a classification society to see to it that it is efficient in its classifications.

Mr. EDMONDS. Could you furnish us with the basic reasons why we should have an American bureau in preference to letting Lloyd's do all the work?

Commodore BERTHOLF. Yes; I can give you an answer to that in a few words—because we are dealing with American ships. Every element that goes to make up what is called American shipping should be governed and controlled by Americans; otherwise it is not American shipping. There is no reason in the world why American shipowners should have their ships classed, insured, or anything else, abroad. You can not expect the people abroad to lay awake nights to help along American shipping as against their own shipping. Therefore all of those elements, the underwriters, the shipowners, the ship builders, and the ship operators, should all look to American institutions for those things they need. That is fundamental. American interests are best served in American institutions.

Mr. CHINDBLOM. If a foreign classification society wanted to act in a way prejudicial to American shipping interests, it could do so, could it not?

Commodore BERTHOLF. I never knew of any organization that could not act prejudicially to some other organization, if it wanted to. I would not undertake to outline any modus operandi, but that of course is axiomatic.

Mr. EDMONDS. I agree with you fully, but I wanted to get your opinion in the record along with the rest of the testimony.

Commodore BERTHOLF. I reckon that everybody else has the same opinion.

Mr. GREENE. It was not done heretofore on account of the fact that we did not have any merchant marine of sufficient capacity to be reckoned with.

Commodore BERTHOLF. Oh, they had the Great Lakes registry, and those ships were classified by the Great Lakes registry. But that is now a part of the American bureau.

Mr. GREENE. You took that under your control?

Commodore BERTHOLF. Oh, yes. That was done in the reorganization.

Mr. GREENE. Of course, in these various shipyards throughout the country the vessels they have been building would come in, under this proposed legislation, to be classified?

Commodore BERTHOLF. Yes.

Mr. CHINDBLOM. During this recent expansion of American shipping, have you found any difficulty in engaging the increased number of surveyors as fast as you needed them?

Commodore BERTHOLF. That was true in the beginning, but it is not true now. And it was true just the same of British Lloyds as of the American bureau.

Mr. CHINDBLOM. They had the same difficulty?

Commodore BERTHOLF. Oh, yes; you see shipyards were coming up over night, metaphorically speaking, all over the country. They had to have technical assistants. The American bureau and the British Lloyds also had to have technical assistants, and the field was limited.

Mr. CHINDBLOM. Well, our supply and our facilities were just as good as those of any other country?

Commodore BERTHOLF. Just as good. But that condition has gone by now and, besides, there has been so much building that lots of experience has been gained by it. so that we do not lack for good surveyors now.

Mr. CHINDBLOM. Are the surveyors trained in America?

Commodore BERTHOLF. The greater portion of them are, yes; in the technical schools, and then the experience in the various shipyards and on the ships at sea, and so forth.

Mr. KINCHELOE. When they get through with that line of interrogation I want to ask you about something else. But I do not want to interfere with these gentlemen along that line.

Mr. EDMONDS. I am through.

Mr. CHINDBLOM. I have nothing further.

Mr. KINCHELOE. Do you agree to the proposition that the foreign insurance companies can write insurance cheaper than American?

Commodore BERTHOLF. I do not know anything about insurance. I am not an insurance man.

Mr. KINCHELOE. You would not be qualified to speak along that line?

Commodore BERTHOLF. No, sir.

Mr. KINCHELOE. If you do not feel qualified, of course, I will not interrogate you along that line.

Commodore BERTHOLF. No; I could not say a word about that.

Mr. LEHLBACH. If there are no further questions of the commander, the committee wishes to express its thanks to you for your appearance and the information you have given us.

Is there anyone else present who desires to be heard at this time?

Mr. KINCHELOE. In reading over this hearing, looking over it very hurriedly, my recollection is Mr. Ogden was to furnish, as I thought, as a part of his hearing, the losses that had occurred in the Shipping Board. I do not see it in here.

Mr. LEHLBACH. I will ask the secretary if the detailed statement of losses which Mr. Ogden was to furnish has been received.

Mr. DE TONNANCOUR. That has not been received as yet. He is working on that statement now.

Mr. LEHLBACH. He did say it would take a little time, and that will be incorporated in the record as soon as it is received. But this has come in: I have here, which has been transmitted to me as chairman by the director of insurance of the United States Shipping Board, the form of policy under which the division of insurance covers the insurance on steel and wooden ships owned by the Shipping Board. Do you wish to incorporate a copy of this form of policy in the record?

Mr. EDMONDS. I think we should put in all the information we can get about insurance and let these hearings be as complete a work on marine insurance as we can possibly get together.

Mr. KINCHELOE. I think it is very important.

(The paper referred to is as follows:)

[Division of Insurance, United States Shipping Board Emergency Fleet Corporation.]

FORM OF POLICY COVERING STEEL AND WOODEN STEAMERS.

Upon the body, tackle, apparel, stores, ordnance, munitions, artillery, boats, and other furniture, boilers, and machinery of the steamship called the ——— S. S. or by whatsoever name or names the said vessel is or shall be named or called; beginning the adventure upon the said vessel, etc., as above, and so shall continue and endure during the period of aforesaid, as employment may offer, in port and at sea, in docks and graving docks, and on ways, gridirons, and pontoons, at all times, in all places, and on all occasions, services, and trades whatsoever and wheresoever, under steam or sail; with leave to sail with or without pilots, to tow and be towed, and to assist vessels and/or craft in all situations and to any extent, and to go on trial trips. With liberty to discharge, exchange, and take on board goods, specie, passengers, and stores, wherever the vessel may call at or proceed to, and with liberty to carry goods, live cattle, etc., on deck or otherwise, but warranted free of any claim in respect of deck cargo. Including all risks of docking, undocking, changing docks, or moving in harbor and going on or off gridiron or graving docks as often as may be done during the currency of this policy.

The said ship, etc., for so much as concerns the assured, by agreement between the assured and assurers in this policy, are and shall be valued at the sum entered in the insurance fund.

Donkey boilers, winches, cranes, windlasses, steering gear, and electric-light apparatus shall be deemed to be part of the hull and not part of the machinery.

Touching the adventures and perils which we, the said assurers, are contented to bear and take upon us, they are of the seas, men-of-war, fire, enemies, pirates, rovers, thieves, jettisons, letters of mart and countermart, surprisals, takings at sea, arrests, restraints and detainments of all kings, princes, and peoples of what nation, condition or quality soever, barratry of the master and mariners, explosions, riots, or other causes of whatsoever nature arising either on shore or otherwise, causing loss of or injury to the property hereby insured, and of all other perils, losses, and misfortunes that have or shall come to the hurt, detriment, or damage of the said ship, etc., or any part thereof. And in case of any loss or misfortune it shall be lawful for the assured, their factors, servants, and

assigns, to sue, labor, and travel for, in, and about the defense, safeguard, and recovery of the said ship, etc., or any part thereof, without prejudice to this insurance to the charges whereof the assurers will contribute according to the rate and quantity of the sum herein assured. And it is expressly declared and agreed that no act of the insurer or insured in recovering, saving, or preserving the property insured shall be considered as a waiver or acceptance of abandonment.

This insurance also specially to cover (subject to the free of average warranty) loss of or damage to hull or machinery, through the negligence of master, charterers, mariners, engineers, or pilots, or through explosions, bursting of boilers, breakage of shaft, or through any latent defects in the machinery or hull, provided such loss or damage has not resulted from want of due diligence by the owners of the ship, or any of them, or by the manager, masters, mates, engineers, pilots, or crew not to be considered as part owners within the meaning of this clause should they hold shares in the steamer.

And it is further agreed that if the ship hereby insured shall come into collision with any other ship or vessel and the assured or charterers shall in consequence thereof become liable to pay and shall pay by way of damages to any other person or persons any sum or sums not exceeding in respect of any one such collision the value of the ship hereby insured, we, the assurers, will pay the assured or charterers such proportion of such sum or sums so paid as our subscriptions hereto bear to the value of the ship hereby insured. And in cases where the liability of the ship has been contested, with the consent in writing of a majority of the underwriters on the hull and/or machinery (in amount), we will also pay a like proportion of the costs thereby incurred or paid; but when both vessels are to blame, then, unless the liability, of the owners or charterers of one or both of such vessels becomes limited by law, claims under the collision clause shall be settled on the principle of cross-liabilities as if the owners or charterers of each vessel had been compelled to pay to the owner or charterers of the other of such vessels such one-half or other proportion of the latter's damages as may have been properly allowed in ascertaining the balance or sum payable by or to the assured or charterers in consequence of such collision; and it is further agreed that the principles involved in this clause shall apply to the case where both vessels are the property, in part or in whole, of the same owners or charterers, all questions of responsibility and amount of liability as between the two ships being left to decision of a single arbitrator, if the parties can agree upon a single arbitrator, or failing such agreement, to the decision of arbitrators, one to be appointed by the managing owners or charterers of both vessels and one to be appointed by the majority (in amount) of underwriters interested in each vessel; the two arbitrators chosen to choose a third arbitrator, before entering upon the reference, and the decision of such single, or of any two of such three arbitrators, appointed as above, to be final and binding: *Provided always*, That this clause shall in no case extend to any sum which the assured or charterers may become liable to pay or shall pay for removal of obstructions under statutory powers for injury to harbors, wharves, piers, stages, and similar structures, consequent on such collision, or in respect of the cargo or engagements of the insured vessel or for loss of life or personal injury: *And provided also*, That in the event of any claim being made by charterers under this clause they shall not be entitled to recover in respect of any liability to which the owners of the ship, if interested in this policy at the time of the collision in question, would not be subject nor to a greater extent than the shipowners would be entitled in such event to recover.

And it is further agreed that in the event of salvage, towage, or other assistance being rendered to the vessel hereby insured by any vessel belonging, in part or in whole, to the same owners or charterers the value of such services (without regard to the common ownership of the vessels) shall be ascertained by arbitration in the manner above provided for under the collision clause, and the amount so awarded, so far as applicable to the interest hereby insured, shall constitute a charge under this policy.

General average and salvage charges payable in accordance with York-Antwerp rules, 1890, if so provided for in the contract of affreightment. As regards matters not provided for in the York-Antwerp rules, 1890 (when the contract of affreightment provides for such rules), and also when the contract of affreightment does not provide for such rules, general average and salvage charges shall be payable in accordance with the laws and usages of the United States. Provided always that when an adjustment according to the laws and

usages of the port of destination is properly demanded by the owners of the cargo, general average shall be paid in accordance with same.

No claim shall be allowed in respect of scraping or painting the vessel's bottom except as provided in Rule of Practice VIII of the Association of Average Adjusters of the United States.

Grounding in the Panama Canal, or in the Suez Canal, or in the Manchester Ship Canal or its connections, or in the River Mersey above Rock Ferry Slip, or in the River Plate (above Buenos Aires) or its tributaries, or in the Danube, Demerara, or Bilbao River, or on the Yenikale or Bilbao Bar, shall not be deemed a stranding.

In no case shall underwriters be liable for unrepaired damage in addition to a subsequent total loss sustained during the term covered by this policy.

In ascertaining whether the vessel is a constructive total loss the insured value shall be taken as the repaired value, and nothing in respect of the damaged or break-up value of the vessel or wreck shall be taken into account.

In the event of total or constructive total loss, or claim to be made by the underwriters for freight, whether notice of abandonment has been given or not.

Notwithstanding anything herein contained to the contrary, this policy is warranted free from particular average unless amounting to $1,000.

The warranty and conditions as to average $1,000 to be applicable to each voyage as if separately insured, and a voyage shall be deemed to commence at one of the following periods to be selected by the assured when making up the claim, viz: At any time at which the vessel (1) begins to load cargo or (2) sails in ballast to a loading port. Such voyage shall be deemed to continue during the ensuing period until either she has made one outward and one homeward passage (including an intermediate ballast passage, if made), or has carried and discharged two cargoes, whichever may first happen, and further, in either case, until she begins to load a subsequent cargo or sails in ballast for a loading port. When the vessel sails in ballast to effect damage repair such sailing shall not be deemed to be a sailing for a loading port, although she loads at the repairing port. In calculating the $1,000 above referred to, particular average occurring outside the period covered by this policy may be added to particular average occurring within such period provided it occurs upon the same voyage (as above defined), but only that portion of the claim arising within such period shall be recoverable hereon. The commencement of a voyage shall not be so fixed as to overlap another voyage on which a claim is made on this or the preceding policy.

Warranted free of capture, seizure, arrest, restraint, or detainment, and the consequences thereof, or of any attempt thereat (piracy excepted), and also from all consequences of hositilities or warlike operations, whether before or after declaration of war.

(The subcommittee thereupon adjourned to meet at the call of the chairman.)

MARINE INSURANCE.

SUBCOMMITTEE OF THE COMMITTEE ON THE
MERCHANT MARINE AND FISHERIES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Thursday, September 25, 1919.

The subcommittee met at 10 o'clock a. m., Hon. George W. Edmonds, presiding.

Mr. EDMONDS. For the information of the members of the committee and the other gentlemen present, I have just received a telegram from Chairman Lehlbach, in which he states: "Kindly take charge of insurance investigation. I am unavoidably detained in Newark." That being the case, and being the next member on the committee, I presume I will have to take charge of the hearing to-day.

For the benefit of you insurance gentlemen, I would like to state this subcommittee was instructed, with full power, by the Merchant Marine Committee to investigate the question of marine insurance. It was not desired by the Merchant Marine Committee to investigate marine insurance with any harmful ideas. The idea was to investigate marine insurance to see if something could not be done to keep marine insurance, as far as possible, in this country and what conditions prevailed at the present time to prevent American fire insurance companies, and other companies, that could go into this business, from going into the business.

Along that line, and with the idea of securing some basic information, we sent out a number of questionnaires. These questionnaires, as far as desired by those who filled them in, will be kept confidential. Of course, they are open to the members of the committee and possibly some of the information may be disseminated; but there are certain portions of these questionnaires where several parties desire their information to be kept confidential, and that will be done. The gentlemen who are representing these insurance companies do not need to worry that we are trying to make any destructive legislation; we are trying to make constructive legislation and trying to benefit these men who have and will and can build up the American merchant marine insurance. Therefore, we are bringing you here with the idea of telling you what the result of our investigation was, in a general way, through the questionnaires and, by asking you questions, to have you enlighten us so as to see whether we can not in some way frame legislation that will be beneficial to American marine insurance. We are very little interested in English marine insurance and other foreign marine insurance. What we want to do is to produce legislation that will build up American marine insurance.

Now, we are going to look to you men, who are Americans, to help us build it up. A great many people think when Congress starts out on an investigation, that we are starting out on an exploring expedi-

tion with the idea of destroying something. We are not. The action of the Merchant Marine Committee in connection with the shipping business, in removing and not providing any regulatory features, but in providing supervisory features, in the passage of the shipping act, will tell you that the Merchant Marine Committee has not and never will destroy any beneficial influences in any business. I do not think—I know there is no desire anywhere of any member of the committee to destroy; it is to help build up. We want you gentlemen to help us build up the marine insurance in this country. And, as I say, we have no desire to build it up anywhere else.

Now, the committee have prepared a statement, which I have no doubt you gentlemen will be glad to know, and which I will read to you before you put in any testimony, but I want to say we had considerable difficulty in getting this together, although I think it is fairly accurate. It has been very hard to get any information in regard to marine insurance. It is the most secretive business I ever had anything to do with. I used to think I was in a secretive business when I was in the coal business, but it does not touch the marine insurance business. I will read this report to you:

Owing to the absence of available public records indicating the real status of marine insurance, the committee found it necessary to direct a detailed questionnaire to all domestic and foreign-marine insurance companies operating in the United States. The published records of all State insurance departments deal only with general totals for 'Marine and inland' insurance, and these figures are misleading since they include various forms of inland insurance, such as motor vehicle, tourist baggage, and registered mail insurance. The committee, therefore, had these various forms of insurance separated through an analysis of the published records and, where this was impossible, through correspondence with the companies. In fact, it was only through correspondence that one could even ascertain the number of American and foreign companies transacting marine insurance in this country. Moreover, no public records exist anywhere which differentiate the volume of marine insurance into hull and freight cargo, and builders' risk insurance, or which show the volume of marine insurance in the foreign trade as distinguished from coastwise and inland insurance. This information had to be obtained through the committee's questionnaire.

NUMBER AND IMPORTANCE OF AMERICAN COMPANIES.

It is common to hear emphasis placed upon the large number of American companies transacting marine insurance. State records indicated a total of 186 marine insurance companies and associations (137 domestic and 49 foreign) transacting marine and inland insurance in the United States. To all of these the committee directed its questionnaire, and replies have been received thus far from all except eight domestic and four foreign companies. After eliminating the items of motor vehicle, tourist baggage, and registered mail insurance, it appears that only 128 companies and associations transact marine insurance in this country, and of this number 40 are foreign companies and associations and 88 domestic. But of the 88 domestic companies 12 are not direct-writing companies and receive all their business as reinsurance from other companies; 2 are direct-writing companies but reinsure all their business; 1 transacts only an insignificant amount of builders' risk insurance; 3 recently discontinued writing marine insurance; 3 have been merely organized and have not yet begun the transaction of business; and 6 confine themselves solely to inland and coastwise waters and transact no ocean marine insurance. In other words, it appears that there are only 63 direct writing American companies participating in ocean marine insurance, and 69 if both internal and foreign commerce are considered. But of the 63 direct-writing American companies, 6 are controlled by foreign companies through stock ownership or a common management, while at least 5 more share a very intimate and sympathetic relation to foreign interests by virtue of having directors or leading stockholders resident abroad, or by having a management very closely affiliated with the management of foreign

companies operating in this country, together with reinsurance agreements with said foreign companies covering a very large proportion of the total business written. Two additional American companies, newly created and not yet writing business, it should be added, are also foreign controlled.

But the danger of emphasizing the number of American marine companies is further revealed by the extent to which a few transact the lion's share of the business. Of the uncontrolled American companies 2 receive nearly one-fourth of the total net premium income received by all the companies from actual marine insurance, after deducting the motor-vehicle, tourist-baggage, and registered-mail business; 5, over four-tenths; 10, nearly two-thirds, and 15, three-fourths. To show the small way in which many of the companies participate in the marine underwriting, it may be stated that 14 uncontrolled companies derived during 1918 less than a total of 1 per cent of the entire net premium income of all uncontrolled American companies from actual marine insurance; 26 companies received a total of only 4 per cent, and 36 companies (about one-half of the total number) only 8 per cent.

Moreover, of all the 88 American companies only 11 confined themselves to marine insurance, and 5 of these are foreign controlled or very closely affiliated by management and reinsurance arrangements. Of the uncontrolled companies approximately one-fifth derived 96 per cent of their total net premium income from fire insurance and from inland insurance other than marine; one-half, at least 90 per cent; two-thirds, at least 80 per cent, and three-fourths, at least 70 per cent. Excluding the 10 leading companies, all the remaining uncontrolled American companies received approximately only 10 per cent of their net premium income from marine insurance, while 5 per cent was received from motor-vehicle, tourist-baggage, and registered-mail insurance, and 85 per cent from fire and its allied forms of insurance.

DISTRIBUTION OF AMERICAN MARINE INSURANCE BETWEEN DOMESTIC AND FOREIGN COMPANIES.

Marine risks written and renewed during 1918 by all companies, domestic and foreign, operating in the United States, amounted to $71,258,305,186. This total was arrived at after making an approximate deduction for motor-vehicle, tourist-baggage, and registered-mail insurance on the basis of premium income received from these sources as compared with the total premium income on all "marine" and "inland" business. This process, it is conceded, is somewhat subject to criticism, but premium figures constituted the only data available, and, in any case, one uniform plan for making the deduction was applied to all companies. Of the foregoing total, branch offices of admitted foreign companies wrote or renewed $38,613,473,250, or 13 per cent, and other American companies $23,400,821,248, or 32.8 per cent.

After deducting motor-vehicle, tourist-baggage, and registered-mail premiums the net marine premiums of all American and foreign companies operating in the United States, as reported by the State insurance departments, aggregated approximately $108,648,129 for 1918. Of this total, branch offices of admitted foreign companies received $39,450,085, or 36.3 per cent; American companies controlled or very closely allied with foreign companies, $6,483,373, or 6 per cent, and all other American companies, $62,714,671, or 57.7 per cent. Similar compilations were made as regards both net premiums and risks, written or renewed, for the years 1917 and 1913. Substantially the same relative importance of American and foreign companies was found to exist, although the total volume of business by 1918 had, of course, expanded enormously as compared with 1913. Such change as did occur since 1913 in the relative importance of the two classes of companies appears to have been in the direction of greater foreign control.

From the standpoint of net premium income—the most favorable showing—it would appear that uncontrolled American companies wrote, during 1918, somewhat over half of the marine insurance transacted in the United States. But the committee has received estimates from competent underwriters to the effect that at least 20 per cent of all marine insurance originating in this country is exported directly abroad to be placed through nonadmitted underwriters or with the home offices of admitted foreign companies. Such exported business does not appear in any of the reported data on this side. When this fact is taken into account, it would appear conservative to conclude that considerably more than one-half of American marine insurance is conducted through foreign channels. Moreover, a considerable amount of marine insur-

ance originating abroad is reinsured in or assigned directly to American companies by foreign underwriters, this amount appearing in the published records of American companies, although not representing American business.

It should also be noted that many American companies placed a very substantial part of their reinsurance with foreign underwriters. In this respect the committee's inquiry is not yet complete. Thus far 45 companies have reported the placing of reinsurance during 1918 with foreign companies, as compared with 19 who reported no such reinsurance. Of the 45 companies, 9 placed 10 per cent or less of their total reinsurance (based on premiums) with foreign companies; 4 between 10 and 20 per cent; 4 between 20 and 30 per cent; 2 between 30 and 40 per cent; 7 between 40 and 50 per cent; 4 between 50 and 60 per cent; 5 between 60 and 70 per cent; 4 between 70 and 80 per cent; 2 (one of which ranks among the very largest American companies and which reinsured 60 per cent of its entire business) between 90 and 95 per cent; and 4 (two of which are foreign owned) 100 per cent.

Twenty companies, which have thus far reported on the matter, placed reinsurance during 1918 with nonadmitted companies, or with the foreign offices of companies possessing branches in this country, to the extent of $7,228,300 of premiums, and named 68 nonadmitted foreign companies, located in 10 different countries, with whom such reinsurance was placed. But the total of such reinsurance is no doubt considerably larger, since 17 American companies reinsuring in foreign companies, and several of them large and foreign-allied, have not yet separated their reinsurance with foreign companies as between admitted and nonadmitted offices. Of the 20 companies 6 placed all their reinsurance with foreign companies with nonadmitted companies or with the foreign offices of admitted companies; 5 placed, respectively, 95, 77, 70, 67, and 42 per cent; and 3 between 30 and 40 per cent.

CLASSIFICATION OF THE BUSINESS.

Replies to the committee's questionnaire clearly indicate that American companies cater primarily to cargo insurance and do not, as a general proposition, emphasize hull insurance. A number of companies expressed their inability to separate their business into respective proportions for hull and freight, cargo and builders' risk insurance. Thus far, however, 63 American companies have furnished the committee with a detailed classification of their business. Of these 63 companies, 4 transacted no hull and freight insurance at all; 12 derived less than 10 per cent of their total marine premium income from hull and freight insurance; 19 less than 15 per cent; 24 less than 20 per cent; 28 (nearly one-half the total number) less than 33 per cent. Almost all of these companies received nearly all of the balance of their marine premium income from cargo insurance. The same situation is also revealed by the reports furnished the committee by the American branch offices of foreign admitted companies. But the committee has been advised by competent underwriters that the practice of exporting marine insurance directly to the foreign market is resorted to particularly in the case of hull insurance. Some of these estimates are to the effect that at least 50 per cent of all American hull insurance is thus exported.

The unsatisfactory condition surrounding hull insurance is freely confirmed by American companies in their replies to the committee's questionnaire. Fifty-one of the sixty-three American companies, already referred to, report that they do not emphasize hull insurance. Twelve companies explain that they have found their hull business to be unprofitable; 9 state that they do not emphasize hull insurance and write it very sparingly because of the hopeless outlook for this class of business at the time they began writing marine insurance; 14 report that they found only a small profit in hull insurance in prewar times, while at present the situation is still less hopeful because the enormous increase in the cost of repairs and salving has been accompanied by little or no increase in premiums over those of prewar years; and 16 state that competition of companies located in foreign countries, and the facility with which owners and brokers export marine insurance to such countries, precludes any hope of success. Several companies report that they are endeavoring to reduce their hull business, and one important company explains that its hull business, instead of constituting 72 per cent of its whole business in 1918 will be around 25 per cent only in 1919, since it is materially curtailing this class of business on account of competition with the foreign insurance market which escapes all Government and State taxes.

The situation explained for hull insurance is practically duplicated in the field of builders' risk insurance. A number of companies express their inability to separate this class of business; but thus far 53 American companies have furnished the proportion of their premium income from marine insurance derived from builders' risk insurance. Twelve report that they transact no such business; 6 received merely the pittance of one-half of 1 per cent of their marine premium income from this source; 7 between one-half of 1 and 1 per cent; 4 between 1 and 2 per cent; 6 between 2 and 3 per cent; 5 between 3 and 4 per cent; 4 between 4 and 5 per cent; 4 between 6 and 7 per cent; 1 between 8 and 9 per cent; 3 (all foreign-controlled companies) 10 per cent; and 1 (a foreign-owned company) 34 per cent. Of the uncontrolled companies, 18 (over one-third of the total number who have reported thus far) received one-half of 1 per cent or less of their marine premium income from builders' risk insurance; 25 (one-half of the total number) 1 per cent or less; and 35 (nearly three-fourths of the total) only 3 per cent or less. Here, again, much the same situation is shown by the reports received from the American branch offices of foreign-controlled companies. But, as in the case of hull insurance, the committee has been advised by competent underwriters that the practice of exporting insurance directly to the foreign market is also resorted to very largely in the case of builders' risk insurance.

As in the case of hull business, American companies freely confirm the unsatisfactory conditions surrounding builders' risk insurance. Eight companies state that the field has been greatly restricted through the operations of the insurance fund of the Emergency Fleet Corporation of the United States Shipping Board; 20 companies report that they do not emphasize such insurance because they see no opportunity of securing any business except at unprofitable rates; 9 explain that when they began writing marine insurance they found that builders' risks were almost wholly going to companies located in foreign countries, because, among other reasons, such companies may assume hazards which are forbidden to American companies by the laws of the various States in this country; and 9 report that companies in foreign countries, who escape taxes and other expenditures which American companies must meet, seem anxious to have the business at rates which they (the American companies) would find unprofitable.

Gentlemen, that is the report of the committee up to date, and it is for your information.

I believe it was arranged this morning that Mr. Rush would be our first witness, and, Mr. Rush, I am required by the committee to swear you; so, you will please be sworn.

TESTIMONY OF MR. BENJAMIN RUSH, PHILADELPHIA, PA., PRESIDENT OF THE INSURANCE CO. OF NORTH AMERICA, AND THE ALLIANCE INSURANCE CO. OF PHILADELPHIA.

(The witness was sworn by Mr. Edmonds.)

Mr. RUSH. Before I begin, gentlemen, I would like to present to the chairman the original report of the Association of the Marine Underwriters of the United States, duly signed by me as president, and attested by the secretary. I have no doubt you have already received advance copies.

(The report submited by the witness is as follows:)

Mr. LEHLBACH.

Chairman subcommittee on miscellaneous business of the Committee on Merchant Marine and Fisheries.

The Association of Marine Underwriters of the United States, in response to the request of this committee, conveyed by Mr. Hedge, has given the question of suggested legislation whereby the position of the marine insurance market may be strengthened, their most careful consideration.

1. It must be borne in mind that the American marine insurance facilities have just undergone a large expansion, so that they are now approximately adequate to take care of the American ship owner and the American merchant.

Its growth has been steady during the past decade, but, of course, has been considerably accelerated by the increased volume of foreign trade during recent years. This increase has accrued to the American marine insurance market in spite of its disabilities. The disabilities under which the American marine insurance companies have suffered in the past have been:

2. The absence of any considerable volume of American hull insurance due to the fact that few vessels registered under the American flag have been engaged in world-wide commerce.

3. They have to compete with the marine insurance markets of the world, and their principal competitors are those whose Governments impose a minimum restrictive legislation and taxation.

Taxation.—They, together with the agencies of foreign companies regularly entered in the United States, pay taxes on premium income in the United States, whereas their aforesaid competitors in foreign countries are taxed on net profits.

Example.—As an illustration, a hull insured for $100,000 at 5 per cent in the United States, pays a tax on the premium of approximately $200, against about $25 in England. They are required to keep substantial reserves and deposits in more than one State for the security of policy holders. A material volume of marine business is placed abroad with companies either not entered in the United States or through the home offices of foreign companies which are entered in the United States, thus escaping the payment of taxes imposed upon American marine insurance.

4. *Regulations.*—The companies suffer a handicap owing to the fact that they have to operate under the laws of various States and these laws are not uniform, and are often conflicting and appear in many cases to be drawn primarily with regard to the regulations of fire rather than marine insurance. This not only hampers the activities of the companies, but involves them in expenses, necessitated by the segregation and the preparation of separate figures for each State; the figures for one State have to be made up on a different basis from those for another State. Their foreign competitors are under no such disability. It is submitted that this is prejudicial to the interests not only of the American underwriter, but to the commerce of the United States, as in its essence commerce is and must be international, the American merchant, marine underwriter, and shipowner must be prepared to meet the competition of other nations throughout the world, and this fact must be recognized in all legislation, State or national, dealing with insurance upon commerce.

Considering these matters in order, the association, therefore, makes the following recommendations:

1. As regards volume of business. This requires no action by Congress. Hull insurance is one of the foundations of marine insurance, and all that the American market requires is a diversified volume of this business. This result can only be attained through the growth of the American merchant marine and foreign trade, and by the development in this country of the sentiment of American insurance being placed with American insurance companies.

2. *Taxation.*—This association feels that the disabilities created by a premium tax could best be met by an arrangement which would abolish the taxation on premiums of marine insurance business, substituting therefor a tax on net profits, thereby placing it on an equal basis with its foreign competitors. If this proves to be impracticable it is felt that an equalizing tax should be imposed upon any marine insurance placed in a foreign market adequate to place it on an equal cost basis with the business which is done by American companies, and that some more perfect plan of collecting this tax than that provided for in the present revenue bill be devised. The question of what is an adequate tax and the proper method of enforcement, might with advantage be investigated by the committee, subsequently suggested in paragraph No. 4.

This association believes that legislation designed to force the placing of marine insurance exclusively with American companies would be unwise and would probably result in foreign buyers making their purchases on the basis of cost and freight, or free on board shipping port, thus permitting foreign buyers to arrange their own marine insurance abroad with the result that American marine insurance underwriters would lose a considerable portion of the export business. Foreign sellers could easily arrange to sell on terms

of cost, insurance and freight thus causing loss to American companies of a considerable portion of the marine insurance on import business.

3. *Regulations.*—As regards the disabilities arising both from the present system of taxation, and from the multiplicity of regulations under the various laws of the different States, this association feels that this can only be overcome by uniform regulations by the States. The limitations imposed by the Constitution and the decision of the Supreme Court preclude the taking away of this authority from the States and vesting it in the Federal Government.

4. The association feels that by reason of the constitutional control exercised by the various States, the Federal Government is hampered in adopting any action which could be of material assistance in stimulating the development of American marine insurance. However, they do feel that the appointment of a committee by Congress composed of men thoroughly familiar with the principles of marine insurance and its practical application to draft a model law for the District of Columbia and the enactment of this law by Congress, would provide a basis for the standardization of State laws. This would ultimately prove of great value to the American shipowner, American commerce, and American marine insurance companies.

The enactment of such a law after a study by competent experts would undoubtedly have great weight with the Insurance Departments and legislators of the various States. The association hopes that with this powerful illustration the principal maritime States would be disposed to enact similar uniform legislation dealing with this important subject, thus recognizing its national and international importance.

The association also desires to express its approval of the provisions for fixing load lines and free board as provided in H. R. 3621 (Alexander bill), and hope that they may be enacted into law.

ASSOCIATION OF MARINE UNDERWRITERS OF THE UNITED STATES,
By BENJAMIN RUSH, *President.*

Attest:

F. HOSBORN, *Secretary.*

SEPTEMBER 15, 1919.

Mr. EDMONDS. Do you want to make any statement on the situation in marine insurance?

Mr. RUSH. Yes; gentlemen, I think it perhaps might be wise to do so. In the first place, I want to say for myself and all the other marine insurance companies I have had any association with, that they desire me to express their extreme gratification in the action of this committee in coming together and seeing what to do to help marine insurance; not so much for the advantage of their own stockholders, but because it is a vital part of the work which will have to be done to put back the American merchant marine where it should be.

Banking, ship owning, and marine insurance, taken together, are the three cords which are necessary to be intertwined in order to get a profitable and healthy merchant marine and to provide a healthy trade. Consequently we think you gentlemen are doing an extremely valuable service in devoting yourselves to constructive legislation regarding it.

Now, as regards the question of helping the marine insurance to fulfill its part, the companies composing the association of marine underwriters of the United States, whose report is before you, held several meetings to discuss this question in full association. They then decided they would do better if they delegated that to a committee, which they did, and they made me chairman of the committee. That committee was composed, I think, of the leading members of the marine insurance business of the United States. We met together. We were of course familiar with most of the matter you have just brought out, Mr. Chairman, and we decided to make the report which you have received.

Marine insurance is a very liquid subject; naturally so. The point which I want to emphasize to you gentlemen is that there are two ends to every marine insurance transaction—one in the United States; one in some foreign country. Furthermore, there is no law of the United States; there is no law of any State in the United States, and I can see no possibility of any law being enacted which makes it incumbent for any citizen of the United States to insure his property if he does not want to.

Starting with those two premises, let me outline to you the process of placing a marine risk. A merchant in Chicago, Atlanta, San Francisco, New York, or wherever you choose, has a lot of insurance to place on merchandise, either going from the United States or coming into the United States. He goes to his insurance broker and says, "I want this merchandise of mine covered against marine risks." That broker sounds the marine market for the cheapest rate. The biggest market, of course, is in New York. He will try that first; he will go down the line of the companies to find out the best rate and the best condition for that client of his, wherever he may be. He will also send a cable to his correspondent, presumably in London, to find out what the foreign rate is. That correspondent in London is in touch with the insurance market in France, Spain, China, and throughout the maritime world. If he gets a rate that is as good as the foreign rate, or possibly he may be willing to pay a little bit more for an American policy, he will place his business with an American company; but if there is a difference in favor of the foreign underwriter, he tells his correspondent on the other side (either the shipper or the importer on the other side), "You attend to that insurance for me," and it disappears from the American market. Therefore, all American marine insurance is obliged to compete with the insurance market of the world. I think I want to say right here that it is just and proper that it should do so; because if it did not do it, if there was a protective tariff erected around American insurance companies—supposing it was possible to do such a thing, which I doubt, but supposing it was possible—it might result in the insurance rates for American merchants being higher than the insurance rates for the merchants of England, France, Germany, or any foreign country. That would be greatly to the detriment of American commerce; and I, as an American insurance man, no matter if it would put money in my pocket, have no desire to see that thing come about.

Mr. EDMONDS. Mr. Rush, the committee have prepared a line of questions Mr. Lehlbach was going to ask you, and I suppose I will have to ask them. I may be a little slow about it. During our investigation, we found that there were a number of associations between marine insurance men.

Mr. RUSH. Yes.

Mr. EDMONDS. I presume that was found necessary in the business, was it?

Mr. RUSH. It was, so we could get a consensus of opinion on any important point.

Mr. EDMONDS. When Mr. McGee was here, we seemed to be unable to find out exactly how rates were made. Do not these associations make rates?

Mr. RUSH. Hardly any of them, sir.

Mr. EDMONDS. How about the American Hull Association?

Mr. RUSH. They recommend rates; they do not make them. You have no obligation to accept any rate if you do not want to.

Mr. EDMONDS. You are a member of that association?

Mr. RUSH. No, sir.

Mr. EDMONDS. You were?

Mr. RUSH. I was.

Mr. EDMONDS. You resigned from it?

Mr. RUSH. I resigned.

Mr. EDMONDS. Has the resignation been accepted?

Mr. RUSH. Oh, it was some time ago.

Mr. EDMONDS. Has your resignation been accepted?

Mr. RUSH. I do not know. I do not care whether they have accepted it or not.

Mr. EDMONDS. You are not a member of the association now?

Mr. RUSH. No, sir.

Mr. EDMONDS. Who is the head of that association now?

Mr. RUSH. I do not know, sir.

Mr. EDMONDS. Mr. McGee?

Mr. RUSH. I do not know, sir. Briefly, I will state as regards that, Mr. Chairman, we found their rates were so low that we could not make any money on them.

Mr. CHINDBLOM. What do you mean by their rate; the rate they fixed?

Mr. RUSH. The rate they recommended.

Mr. CHINDBLOM. Are you coming to the question as to just how they recommended those rates?

Mr. EDMONDS. Yes. You understand we are not criticizing the making of rates; somebody had to make rates one way or the other.

Mr. RUSH. I want to tell you just how they do it, Mr. Chairman.

Mr. EDMONDS. That is what we want to get at. The American Hull Association fixed rates or recommended rates?

Mr. RUSH. Recommended rates; yes.

Mr. EDMONDS. And then it was virtually a gentlemen's agreement among the members to keep those rates?

Mr. RUSH. Yes.

Mr. EDMONDS. Of course, there was nothing obligatory about it?

Mr. RUSH. Nothing obligatory.

Mr. EDMONDS. When you were a member of the association, who were the headmen in the association.

Mr. RUSH. Well, I should say Mr. Chubb was one, and the agents of the Fireman's Fund of San Francisco had a good deal to say.

Mr. EDMONDS. Was Mr. Fowler a member?

Mr. RUSH. I do not like to testify, sir. I do not remember.

Mr. EDMONDS. Mr. Fowler was formerly chairman of that, was he not?

Mr. RUSH. He represents some English companies.

Mr. EDMONDS. Was Mr. Appleton a member?

Mr. RUSH. I think so.

Mr. EDMONDS. They were virtually the four large members in that association—Fowler, Chubb, Appleton, and Simpson?

Mr. RUSH. I can not testify to that, Mr. Chairman, because there was not supposed to be anybody—everybody had a free speech in the thing, to say just what they thought.

Mr. EDMONDS. Didn't you have an organization?

Mr. RUSH. We would have a meeting, just as you gentlemen are meeting here, and the question of a rate would come up, and somebody said what do you think it is worth, and we took the surveys and looked them over, and the original cost to build, and the rating and we made a review of the condition of the market, and usually we found we were up against the foreign market.

Mr. EDMONDS. You had to take that into consideration in the rate?

Mr. RUSH. Yes.

Mr. EDMONDS. Now, how was this rate worked out?

Mr. RUSH. You understand every insurance company keeps a very careful book account of its insurance business, what is called a classification, so as to see what rates we ought to charge and adjusting the rates between man and man, so that one profitable gentleman shall not pay for the losing gentleman, but to see that every man, so far as can be done, pays his fair share. Consequently, when a fleet comes up, we take his records and see what he has done for the past five years, and if he has been losing, we try to cut out the losses he has, and see if we can not get some plan whereby he won't have so many losses. And if we get by with that, we renew the fleet. We always have to consider what the owners of that fleet can do in other markets. They are in close touch with the foreign markets, in just as close touch as we are, and it is a very simple thing to go to their broker, if they think our rate is too high, or if they think they can do better, and say, "Take it over to London, or to Hamburg before the war, and place some of the business there." We always have to bear that in mind.

And one of the reasons it is possible to place unprofitable insurance in the London markets is the fact that those large London brokers have business which is not American and which is profitable, and they will go to their clients, to the insurance people in London, and say, "You will have to take this unprofitable business on the American fleet, or else we won't give you the profitable business on the English"; and they offer them one in one hand and one in the other.

Mr. EDMONDS. In that connection, do the English cut the rates of this country so as to get the hull insurance?

Mr. RUSH. They write it for less than we do here.

Mr. EDMONDS. Do they write for less than they write their own?

Mr. RUSH. I do not think so.

Mr. EDMONDS. In other words, their rate is a stable rate the world over?

Mr. RUSH. Their rate is a little bit lower.

Mr. EDMONDS. Their rate in London is lower?

Mr. RUSH. Yes.

Mr. EDMONDS. Is that because they are able to do the work cheaper?

Mr. RUSH. I think they have an edge on use in expenses, as that report shows.

Mr. EDMONDS. That possibly might be true, considering the amount of insurance exported.

Mr. RUSH. Yes.

Mr. EDMONDS. Then the Hull Association considered recently there was no use of their recommending rates any more for the hull insurance, and they just went out of business?

Mr. RUSH. That is right; it was a waste of time.

Mr. EDMONDS. I presume that the statement we made here in our report, which we found very evident, about exporting insurance, is true?

Mr. RUSH. I think a good deal of it is true, sir.

Mr. EDMONDS. When I speak of exporting insurance, I do not mean taking it here and reinsuring on the other side; I mean they take it out here and we have no record, virtually, on this side of the water of what is sent over to the other side to be insured.

Mr. RUSH. That would be a broker's transaction—not an underwriter's transaction.

Mr. EDMONDS. You know there is a good bit of that goes on?

Mr. RUSH. Oh, yes.

Mr. EDMONDS. Probably most of the hull insurance is done that way to-day?

Mr. RUSH. The American underwriter generally is shut out very completely. Of course it is offered to him to say whether he wants it back.

Mr. EDMONDS. And if he don't meet the price——

Mr. RUSH. If he don't meet the price he gets the fellow who will. And let me say something right now: That is bad for the American underwriters, but the American shipowner would be up a tree if that thing did not exist. In normal times, the profit on ship owning, I should say, was not, year in and year out, over 6 per cent. Now, you can see if that American shipowner was held up to a rate say, higher than the English shipowner could get over there, he would have a handicap.

Mr. EDMONDS. Oh, yes; I can understand that. I can understand probably a great many men are driven to just that conclusion.

Mr. RUSH. Sure.

Mr. EDMONDS. That they have to get their insurance at the cheapest place: but what we want to see is why we can not make ours cheap over here.

Mr. RUSH. Yes. That is a perfectly laudable intention.

Mr. EDMONDS. Now, I presume that also explains the difference between cargo insurance and hull insurance—that hull insurance is generally taken out by the year?

Mr. RUSH. It is generally taken out by the year.

Mr. EDMONDS. And cargo insurance is taken out by the trip?

Mr. RUSH. It is taken out upon a policy covering all the insured ships, and it is usually provided it can be canceled on 30 days' notice. It may run for 1 year or it may run for 50 years.

Mr. EDMONDS. That is why it is easier to place hull insurance in the foreign insurance market than it is cargo insurance, where you want to keep closer in touch with the movement of the fleet?

Mr. RUSH. Partly that, and partly because of the bigger volume and larger premium that obtains in the hull insurance. If you get a fleet of steamers, you may write them for a million dollars apiece, and you get a bigger volume of premium and you get a bigger activity than you can get on a cargo policy, which might only give you $500 a year. There is more competition for it.

Mr. EDMONDS. You think the reason the English underwriters are able to make a lower rate is on account of their overhead expenses being smaller?

Mr. RUSH. It is partly that; yes.

Mr. EDMONDS. What do you figure the overhead charges of an English company in Lloyds—the difference between an English company and an American company?

Mr. RUSH. Between 3 and 4 per cent in normal times.

Mr. EDMONDS. Three and four per cent on what; on business or on premiums?

Mr. RUSH. On the premiums. And, Mr. Chairman, before we leave that, I would like to say that is almost a complete profit, because the statistics of my company for nearly 40 years showed, including the interest on our investment, our profit on underwriting would average a little over 5 per cent a year. That is a pretty big slice of that profit.

Mr. CHINDBLOM. For the record, let us get what your company is.

Mr. RUSH. The Insurance Company of North America.

Mr. EDMONDS. Mr. Rush, I presume that answer of yours would cover the question I have here: What is the purpose of foreign underwriters in singling out hull insurance for rate cutting? You say it is not rate cutting; that they are really simply using their own rates in placing the insurance over here.

Mr. RUSH. You understand, Mr. Chairman. I am testifying for the Englishman, and I am not responsible for his mental processes.

Mr. EDMONDS. No.

Mr. RUSH. But I do not think they deliberately go out and cut rates. I think they say "an English ship can be insured for so much, and we will take the American ship at the same rate," or maybe a little bit cheaper, perhaps; I am not sure.

Mr. EDMONDS. Now, I am going to ask you a question that has been put up to me by some banking interests. What do you know about this refusal to insure gold in this country for foreign export?

Mr. RUSH. There is not any refusal.

Mr. EDMONDS. For foreign export during the war.

Mr. RUSH. I take it.

Mr. EDMONDS. You did not take gold shipments for South America during the war?

Mr. RUSH. No; the rate was too low.

Mr. EDMONDS. Is it not true at that time the English underwriters were forbidden to write gold insurance for South America?

Mr. RUSH. I do not know. We kept our statistics of absolute total loss costs and the gold rate was below that, so we did not take it.

Mr. EDMONDS. Did you have under consideration the taking of that gold shipped to South America?

Mr. RUSH. Yes.

Mr. CHINDBLOM. Do you mean your company or your association?

Mr. RUSH. My company.

Mr. EDMONDS. There is a statement here that was made to me. It may be true and it may not be true. It says when American bankers endeavored to finance the shipments of American merchants, the British Government forbade the English insurance companies to write any gold except to or from England. Do you know whether that is so or not?

Mr. RUSH. I do not, sir. I know they had restrictions on gold put on there during the war.

Mr. EDMONDS. The largest insurers of gold in this country (mentioning some names) refused when this ruling came out and declined to write this gold for South America.

Mr. RUSH. They may have done so; I do not know.

Mr. EDMONDS. My information, then, is these people took the matter to you and you declined.

Mr. RUSH. We offered a line on it, but we could not get together on the rate, so we did not take it.

Mr. CHINDBLOM. Was there much negotiation about the rate?

Mr. RUSH. I think they offered us, my recollection is, sir, 5 cents, and we wanted 10; somewhere around there. We have been out of the gold market for some time on account of the difference in the rate.

Mr. EDMONDS. Most of the gold is written by one or two companies in this country?

Mr. RUSH. Yes.

Mr. EDMONDS. It was outside business to you, because I know you had not done it—our information says that.

Mr. RUSH. Yes.

Mr. EDMONDS. But you rather decided you would like to help along and then very quickly decided, for some reason or other, that you would not take it, and I was wondering why that was.

Mr. RUSH. We could not get together on the price.

Mr. EDMONDS. What relation has the American Institute of Marine Underwriters, the International Association of Marine Underwriters, the Association of Marine Underwriters of the United States, and the Board of Underwriters of New York to the Institute of London Underwriters?

Mr. RUSH. None, so far as I know.

Mr. EDMONDS. Are you a member of those associations?

Mr. RUSH. I am a member of the Institute, a member of the New York Board, a member of the American Association of Marine Underwriters of the United States, and—what was the other one?

Mr. EDMONDS. The International Association of Marine Underwriters.

Mr. RUSH. I do not know that one.

Mr. EDMONDS. There is one you are not in. You do not know of any relation between any of those and the Institute of London Underwriters?

Mr. RUSH. No, sir; presumably, they are similar organizations in some shape or form.

Mr. EDMONDS. They have no rate-making communications between those associations, so far as you know?

Mr. RUSH. Oh, no; the Institute sometimes sends out rates to its companies here who happen to be members of the foreign institute. And where now and then I would get a rate sheet from our foreign settling agent over there as a matter of information as to what their rates were, I might add that they were always higher than what we could place the business at.

Mr. EDMONDS. You are a member of the American Committee of Lloyd's Registry?

Mr. RUSH. Yes, sir.

Mr. EDMONDS. You are still a member of that?

Mr. RUSH. Yes, sir.

Mr. EDMONDS. That association, I presume, was made to work for the advancement of Lloyd's Registry in the United States?

Mr. RUSH. It is for the rating of ships built in the United States, whether for American or foreign ownership.

Mr. EDMONDS. And also for the advancement of Lloyd's interests?

Mr. RUSH. I would not say that; no. Lloyd's Registry is not a thing that works for its own advancement at all.

Mr. EDMONDS. Of course, Lloyd's insurance and Lloyd's Registry are two different things?

Mr. RUSH. There is no profit at all.

Mr. EDMONDS. No; who are the other members of that committee?

Mr. RUSH. I do not know.

Mr. EDMONDS. Haven't you ever met?

Mr. RUSH. We met once in New York, I think. I think I attended one meeting over there. I can give that to you, Mr. Chairman. I think I have it on file in my office.

Mr. EDMONDS. Here are Appleton, Chubb, and Fowler?

Mr. RUSH. Yes.

Mr. EDMONDS. And Simpson and McGee, and there is Mather, and there is Rush?

Mr. RUSH. I guess that is right.

Mr. EDMONDS. I think that is the committee, isn't it?

Mr. RUSH. I could not tell you, sir, without looking up my records.

Mr. CHINDBLOM. Just what does that committee do?

Mr. RUSH. I only attended one or two meetings. We get the reports of their various surveyors as to the construction of these vessels—how they are progressing—whether they are being constructed in accordance with Lloyds rules and locating them and pass the reports through; and if they find anything wrong about it, they say so.

Mr. CHINDBLOM. Can you do all the work necessary in the way of locating vessels, and so forth, at so infrequent meetings as you refer to?

Mr. RUSH. It is a routine affair, sir. We have to depend on our surveyors. We are not surveyors ourselves.

Mr. CHINDBLOM. No; I understand. Then, you have an office force of some kind that attends to the routine?

Mr. RUSH. Yes. It might be described, perhaps, as an American branch of Lloyds Registry. If anything goes wrong in America, why, they would report to us, and we would report to the head office.

Mr. CHINDBLOM. Your committee is merely sort of a directorate here?

Mr. RUSH. Yes; we have limited powers, too.

Mr. EDMONDS. You are also on the managing board of the American Bureau of Registry?

Mr. RUSH. Yes, sir.

Mr. CHINDBLOM. Who is the executive officer? What is the executive authority on this side of Lloyd's Registry?

Mr. RUSH. I think it would be vested in the chief surveyor. He would be the man who would watch the work mostly. He is located in New York.

Mr. EDMONDS. You said you were also a member of the managing board of the American bureau?

Mr. RUSH. Yes.

Mr. EDMONDS. Are you active on that?

Mr. RUSH. Much more active than I am in Lloyds.

Mr. EDMONDS. The positions work together?

Mr. RUSH. No; we hope to put the American bureau where it ought to be before we get through with it. I have just been placed on the committee, similar to you gentlemen, to frame legislation to come before Congress.

Mr. EDMONDS. That is what we want to do. You were also connected with the Shipping Board on the classification society, were you not?

Mr. RUSH. I did some work for them; yes.

Mr. EDMONDS. Some of the witnesses coming here had a meeting yesterday, did they not?

Mr. RUSH. I do not know. I was not there.

Mr. EDMONDS. Were you not at the meeting?

Mr. RUSH. No.

Mr. EDMONDS. I thought they decided on a program to tell us, and it might save time by knowing the program.

Mr. RUSH. They did not say anything to me about it.

Mr. EDMONDS. When you were speaking first you spoke about the fluidity of marine insurance. We heard we were going to be told that our insurance would all have to be f. o. b. if it got too restricted, instead of being c. i. f.; and considering, however, that so much of the insurance goes out of the country, I do not see it makes any particular difference whether it is c. i. f. or f. o. b.

Mr. RUSH. It makes a good deal of difference.

Mr. EDMONDS. Tell us why.

Mr. RUSH. If you sell insurance at cost, insurance, and freight, c. i. f., you get the insurance here, you see. That means the merchant here has his hand on the stick. But if you just sell it f. o. b., free on board, then your managing owner protects it until it comes to the ship's tackles, and the importer on the other side attends to the insurance; or if it is imported into the United States, the reverse occurs. What the American underwriters are trying to do is to get all the insurance on exports to the United States; and what the English underwriters are trying to do is to keep it all for themselves, and there is a straight pull and haul between us on that point. I say the American shipowner and the hull owner, all things being equal, ought to patronize the American insurance company, because we are here and he can send a sheriff after us; whereas if he insures on the other side of the water, it is further for the sheriff to travel to get it and he may have to begin a foreign suit to get it. And I think that is coming to be more recognized in the United States than it used to be, because when I first came into the business the merchant did not care a snap where he had it. He is wiser now.

Mr. EDMONDS. Then it is to the advantage of the merchant here to have as many cargoes c. i. f. as he can?

Mr. RUSH. To get as much of the insurance here as he can.

Mr. EDMONDS. It helps him to get the insurance here?

Mr. RUSH. Yes.

Mr. EDMONDS. Now I want to go into this pool business a little bit, and, as I say, it is not with a spirit of criticism, it is more for information.

Mr. RUSH. We are here to lay our cards on the table. That is what we came for.

Mr. EDMONDS. Take the sugar pool: The sugar pool, I presume, settles the rates?

Mr. RUSH. I am not a member of it, sir; so you had better get somebody else on that.

Mr. EDMONDS. How about the burlap pool; you are a member of that?

Mr. RUSH. Yes; I am a member of the burlap pool.

Mr. EDMONDS. The burlap pool settles rates?

Mr. RUSH. It recommends them.

Mr. EDMONDS. When I say "settle," I do not mean, naturally, they have any legal status. You can not settle them.

Mr. RUSH. We recommend.

Mr. EDMONDS. The burlap pool is composed of a number of insurance companies?

Mr. RUSH. Yes.

Mr. EDMONDS. Is there any way for any other insurance company to get into the pool?

Mr. RUSH. Yes: to quote a lower rate, and they will get in in short order; or to get the business away from us one way or another.

Mr. EDMONDS. Has that been the result when an insurance company quoted a lower rate?

Mr. RUSH. Very often.

Mr. EDMONDS. They were just allowed to come in?

Mr. RUSH. No; we tried to freeze them out.

Mr. EDMONDS. That is what I thought.

Mr. RUSH. But a big company that can speak loud enough and short enough might get the business away. The reasons of the establishment of the so-called pools—we call them marine insurance arrangements—are the large values of cargoes and the fact we can not get advice as to what our individual insurance is on any ship prior to her sailing. We can not rely on that. And we want to carry a line, say, of half a million dollars. She may have two million and a half worth of burlap on board that vessel, and if we did not have this reinsurance exchange between ourselves one individual company might find itself with $2,000,000 on its shoulders after the vessel had been to sea a couple of weeks, and it would have great difficulty in getting reinsurance, and of course might have a total loss before the information gets in to us, because it takes time to get the information in to us. So, these reinsurance arrangements were gotten together so that each company would take a certain share of it anyhow and the insurance risk be distributed.

Mr. EDMONDS. In other words, every company that writes a policy of insurance, you virtually reinsure?

Mr. RUSH. Yes; virtually reinsure.

Mr. EDMONDS. Under this reinsurance pool?

Mr. RUSH. Under this reinsurance pool.

Mr. EDMONDS. Now, these pools seem to be rather peculiarly constituted. The burlap pool seems to be divided into 172 shares?

Mr. RUSH. Yes.

Mr. EDMONDS. And it seems that four companies, four interests, control the pool?

Mr. RUSH. How do you mean control?

Mr. EDMONDS. They have 87 out of the 172 shares.

Mr. RUSH. That is true. That simply means they have the biggest share of it.

Mr. EDMONDS. They have the biggest share of it. And these four interests are very closely allied with the English insurance market.

Mr. RUSH. They probably have a large share, because they had a big share of the burlap business before this exchange was formed.

Mr. EDMONDS. And the interests, I suppose, were divided up when the thing was formed in accordance with the amount of insurance.

Mr. RUSH. The companies that needed reinsurance—which would be, of course, the ones having the business—would try to keep as much as they could hold themselves and give to those who did not have the business what they did not want. That is probably the way they got at it.

Mr. EDMONDS. Suppose I went into the insurance business?

Mr. RUSH. I wish you would, sir.

Mr. EDMONDS. Could I get in the burlap pool?

Mr. RUSH. Sure you could.

Mr. EDMONDS. How?

Mr. RUSH. We would elect you right away.

Mr. EDMONDS. Could I get a half a share or one share?

Mr. RUSH. It depends on how much you handed in there.

Mr. EDMONDS. You mean in the way of business?

Mr. RUSH. In the way of business. You would be worth at least one share for your company; yes.

Mr. EDMONDS. I can realize very well why you are not in the sugar pool.

Mr. RUSH. I do not know why myself, except that it was not offered to me.

Mr. EDMONDS. No; it was not so much the fact that it was not offered to you as it was the fact that two or three people got most of it.

Mr. CHINDBLOM. Have these 172 shares any market value?

Mr. RUSH. Oh, no; it is simply a division——

Mr. CHINDBLOM (interposing). It is simply a way of dividing up the business.

Mr. RUSH. Simply a division of the business, a division of the reinsurance.

Mr. EDMONDS. Do you belong to the coffee pool?

Mr. RUSH. No.

Mr. EDMONDS. They are not treating you good in the burlap pool if they will not allow you to get in the other ones.

Mr. RUSH. I did not know there was a coffee pool.

Mr. EDMONDS. There is a coffee pool; there are quite a few of them. They are quite an interesting lot of pools. Some of these folks are very much more fortunate than you are, I will tell you that.

Mr. RUSH. I think this meeting, gentlemen, will be very valuable to the North American.

Mr. Edmonds. I do not know that I should say very much about that because it might be a lack of Philadelphia business enterprise in not getting into all these things.

Mr. Rush. I will be there before long.

Mr. Edmonds. We have a cotton pool, and a burlap pool——

Mr. Rush (interposing). Do not call them pools; they are reinsurance divisions, not pools.

Mr. Edmonds. Reinsurance agreements. There are quite a few of them, and quite interesting, too.

Let us go to the builders' risk, now.

Mr. Rush. All right, sir.

Mr. Edmonds. Don't you think the builders' risk, being a thing entirely in this country, ought to be written in this country?

Mr. Rush. I certainly do, sir.

Mr. Edmonds. Why is it we can not write it?

Mr. Rush. Because I think some companies do not know how profitable it is for one reason, and the second thing is the Navy Department——

Mr. Edmonds (interposing). Placed their insurance in foreign companies, as we know.

Mr. Rush. Placed their insurance in foreign companies.

Mr. Edmonds. Through Mather and Johnson & Higgins.

Mr. Rush. And as a result, some inquiries that came to me disclosed that some of it went to China.

Mr. Edmonds. The builder's risk would be very much more like ordinary house insurance, it seems to me?

Mr. Rush. That is right.

Mr. Edmonds. And it seems to me that it belongs to this country. Was there any special rate made by those people to take the business, who were interested in putting you out of business here? Did they make any special rate to get the business?

Mr. Rush. Who do you mean by "they"?

Mr. Edmonds. The foreign companies.

Mr. Rush. Yes; or it would not be gotten.

Mr. Edmonds. Did they give a bigger commission to the agents for getting it?

Mr. Rush. I do not know about that. I know a lot of business we had left us when this new ruling of the Navy Department came out.

Mr. Edmonds. What was that new ruling of the Navy Department?

Mr. Rush. They placed it in another syndicate.

Mr. Chindblom. What syndicate is that?

Mr. Rush. I do not know; I was not a member of it. I know some of it went to China.

Mr. Edmonds. When you speak of "syndicate," do you mean something like——

Mr. Rush. An association of companies; something like that. For instance, here is the way it works: Some broker will say, "Here, I know So-and-so (the manager of the yard or the owner of the yard) who is building a fleet. I will see if I can not get the business away from the companies that have it." He goes to work and tries to get up a competitive market. There is no kick on that unless he succeeds. In case he succeeds in getting that insurance on the ships building in that yard—it is open to everybody who has it—then the

original companies who have it, they can either meet the rate or let it go. Sometimes they do not get a chance to meet the rate; they do not know anything about it until it has already gone.

Mr. EDMONDS. Is there such a thing as an agency cutting its commission in marine insurance? I believe that is forbidden in fire and other insurance, but do agents cut commissions in marine insurance?

Mr. RUSH. I am not an insurance agent, Mr. Chairman, so I can not testify. I would doubt the agency of a company would cut commissions.

Mr. EDMONDS. The broker may?

Mr. RUSH. The broker may; I can not tell about him. They are very apt to contract——

Mr. EDMONDS. Does not the same law that prevents cutting commissions in fire insurance affect a marine insurance broker?

Mr. RUSH. That I am not able to say.

Mr. CHINDBLOM. Those are statutes of the States, aren't they, Mr. Chairman?

Mr. EDMONDS. Yes.

Mr. RUSH. It is a pretty hard thing to prove, I think you would find.

Mr. EDMONDS. I presume it would be. It may be an explanation of so much of this insurance business being exported.

Mr. RUSH. It may be.

Mr. EDMONDS. They may cut the commissions and then send the business over to the other side to be insured, in order to escape the law.

Mr. RUSH. Mr. Chairman, there are so many different ways of dividing commissions it would turn your hair gray. I know one man who got a policy by reason of renting an office in a building the other fellow owned. How are you going to put your finger on a thing like that?

Mr. EDMONDS. I have heard that Philadelphia brokers cut commissions, but I do not think they have ever caught any of them.

Mr. RUSH. I do not think they ever will. I have tried for 20 years, and I have not done it yet.

Mr. CHINDBLOM. Referring to this Navy transaction, was there a broker who represented the syndicate that got that business?

Mr. RUSH. I am not a member of that syndicate and can not answer, but I imagine there would be. I can not testify under oath there was.

Mr. EDMONDS. You never figured up or made any estimate of the amount of insurance exported?

Mr. RUSH. No, sir.

Mr. EDMONDS. You had no way of doing that?

Mr. RUSH. No.

Mr. EDMONDS. Some of these associations, I will tell you for your information, fix rates.

Mr. RUSH. Yes.

Mr. EDMONDS. We do not find any reason for objecting to that, as long as the rate is proper and right?

Mr. RUSH. Yes.

Mr. EDMONDS. Some of the smaller associations in New England advertise their rates; we have their rate cards.

Mr. RUSH. Yes. In the name of the association?

Mr. EDMONDS. Oh, yes. They make no bones about it at all. I think the name of the association was on the card, wasn't it?

Mr. HUEBNER. Yes.

Mr. EDMONDS. They make no bones about it. Frankly, I will say we feel it would be a great deal better to have published rates in the business and to have them established than it would be to have understandings among a few people who can raise and lower the rates to the detriment of other people.

Mr. RUSH. You can not do it. You can not do it; how are you going to compete with a competitive market on the other side of the water who are not subject to your rate adjustment?

Mr. EDMONDS. Didn't you just say I could break into the business if I should make my rate low enough and was strong enough?

Mr. RUSH. You could. We would follow your rates down until they got below cost, and then all of a sudden you would wake up over night and find yourself loaded up with a lot of unprofitable business.

Mr. EDMONDS. That is what would happen?

Mr. RUSH. That is what would happen.

Mr. EDMONDS. Then you would take me into your association, or would you blackball me?

Mr. RUSH. No; you would not be blackballed. You would come over and say, "I find I have a lot of losing business on my books," and we would say, "Is that so."

Mr. EDMONDS. And then they would take it off my hands?

Mr. RUSH. They would take it off your hands, but not at your rates; and you would be a sadder but a wiser man next time.

Mr. EDMONDS. That would be the natural conclusion: that is what would happen. However, if I started in as a marine insurance broker, you would welcome me?

Mr. RUSH. We would.

Mr. EDMONDS. You would not try to blackball me?

Mr. RUSH. We would try to welcome you into our business.

Mr. EDMONDS. The rates I presume are arrived at according to the amount of business and competitive conditions?

Mr. RUSH. In connection, first and foremost, with the records of the business, the showing of the various companies by the records they all have to-day, as modified by competitive conditions. Of course nobody wastes any time about taking any business on which they have been losing; but, when there is a chance of getting a profit on the business, then we would get up an association if there was enough business for reinsurance. There are very few associations gotten up because usually one company can carry it all and we do not need it.

Mr. EDMONDS. You think England will get tired of this hull business after while?

Mr. RUSH. It goes to-and-fro across the water. Five or six years ago I was in the hull business, and if I thought it was profitable I would be in it now.

Mr. EDMONDS. You keep an eye on that all the time?

Mr. RUSH. Sure, we keep an eye on that all the time; and if I thought it was profitable, I would try to get it.

Mr. EDMONDS. The observance of these rates is also optional with the men, but most of them observe them? It is kind of a gentlemen's agreement?

Mr. RUSH. I think they observe them.

Mr. EDMONDS. Is there any punishment for a member if he does not observe them?

Mr. RUSH. No. I think he would find it was pretty hard to get along if he was caught cheating. It is the same way with cards, you could not get into another game of cards if you were caught cheating, unless it was with another crowd.

Mr. EDMONDS. If they are caught cheating, you know what to do; is that it?

Mr. RUSH. We know what to do.

Mr. CHINDBLOM. Have you had any cheating?

Mr. RUSH. Not for a long time, sir.

Mr. EDMONDS. Have ever to your knowledge a large substantial company, with a good-sized capital, made application to go into any of these associations?

Mr. RUSH. Yes.

Mr. EDMONDS. Do they take them in?

Mr. RUSH. Sometimes. If they have reason for it, they do.

Mr. EDMONDS. What would be the reason, that you were afraid of the large capital?

Mr. RUSH. No. The first thing would be whether they had any business to give. For instance, he might say, "I will come into your burlap pool where I have no business, and give you some business in my coffee pool where you have no business"; and there might be an exchange in that way.

Mr. EDMONDS. Then, a man who would be able to show an advantage could get into your association?

Mr. RUSH. If there is any reason for letting him in. Why shouldn't he?

Mr. EDMONDS. Assume a lot of moneyed interests were to get together and form a large company to do a marine insurance business, what would be their position in the business?

Mr. RUSH. As regards getting the business, they would have to build up from the bottom. If they started to cut rates in order to get in, the other companies who had the business would follow them down until it got below a cost basis; then they would let the other fellow have it.

Mr. EDMONDS. What would be their position, assuming they did not cut the rates and still got business?

Mr. RUSH. Then they would be welcome to all men.

Mr. EDMONDS. You would give them so much if they went into the burlap pool, of the 172 shares?

Mr. RUSH. They might be taken into these various associations as they found they needed them. We do business—I do not mean to say we do it in the best possible way, but we do it the best way we can, and we are perfectly willing for another company to come in. In fact, in recent years, many big fire insurance companies have come in: and they are welcome, so long as they do business as an underwriting business.

Mr. EDMONDS. None of the companies that went into the business recently have gotton into the burlap pool?

Mr. RUSH. Not yet, no; but they have gotton into other business.

Mr. EDMONDS. I presume generally; yes.

Mr. Chindblom. Would a new company, under existing conditions, have much chance of getting, for instance, any of the burlap business?

Mr. Rush. Yes; it would. It would not get very much, but it would get some. They are mostly pretty big houses, you know. Burlap is a very valuable commodity. What they would do is this, they might go to somebody who knew—I do not think they would get a burlap account except by cutting rates, or by pull, so to speak, having some friend who knew the manager or owner. But if they came in at equal rates, they would not get it.

Mr. Chindblom. Would they be able to get any portion of their risk reinsured with the members of your organization?

Mr. Rush. I will take any burlap at my rates from anybody that comes along; yes.

Mr. Chindblom. Without reference to membership in what is called here the burlap pool?

Mr. Rush. Surely. I would take from them in a minute.

Mr. Chindblom. Would the rest of the members?

Mr. Rush. I think they would. There is no reason why they shouldn't, and I think they would.

Mr. Edmonds. These are reinsurance arrangements, where a certain proportion belongs to each member of the pool; and it does not make any difference which member gets it, it is divided up—they divide the burlap business up in accordance with their arrangement.

Mr. Chindblom. I am talking of an outsider, outside of the pool, getting burlap business and offering to reinsure part of it.

Mr. Rush. I told you in answer to that that I would be very glad to take it at my rates, and I think the others would.

Mr. Edmonds. In other words, if he took it at the same rates you do, you would be willing to reinsure it?

Mr. Rush. I would be willing to reinsure it; yes. It is not our object to freeze people out, their rates being right, because, there are only 20 or 30 companies that are in the pools among the hundreds of companies that exist in the world, and we would not be so foolish as to try to freeze people out. All we want to do is to protect our interests and not to have a big liability come on before we know anything about it.

Mr. Chindblom. Is there any general reason why certain companies are in the burlap business, certain companies in the cotton business, and certain other companies in the sugar business?

Mr. Rush. Simply as their writing has developed.

Mr. Chindblom. How long has this been developing?

Mr. Rush. You mean these various reinsurance exchanges?

Mr. Chindblom. Yes.

Mr. Rush. There have always been, so far as I recall, something of the kind on high-valued stuff, ever since I have been in the business, for 35 years.

Mr. Edmonds. As I understand it, a policy of insurance on a ship is apt to be for a very large amount?

Mr. Rush. Yes.

Mr. Edmonds. And no one insurance company wants to take the entire risk?

Mr. Rush. Not on the modern steel vessel; no. They would not want to do that.

Mr. EDMONDS. It has got to be reinsured?

Mr. RUSH. Or divided up among various companies.

Mr. EDMONDS. Or divided up among various companies. Therefore while your company might take a $2,000,000 policy on a boat, you would immediately decide in your mind how much of that you wanted to carry, $50,000 maybe, and the balance of the $2,000,000 you would reinsure somewhere else?

Mr. RUSH. If we had the whole line.

Mr. EDMONDS. Yes; excepting in these pool arrangements, or reinsurance arrangements; because then you would divide in accordance with your pro rata shares.

Mr. RUSH. Yes. The usual way would be for the broker to give each company what it wanted to carry on the hull alone. He would not go out and give the whole policy to one company and have it reinsure; but if that thing occurred, what the company would do would be to go out and see how cheaply it could reinsure it and see if it was possible to get a little higher rate on its retained line. Suppose a ship was insured with us at 5 per cent, and we went out to reinsure and found some man willing to give us a rate of 4½ per cent instead of 5, we would take it of course. Most of it would be 5 per cent.

Mr. CHINDBLOM. Suppose you were offered some sugar insurance, would you write it yourself or would you turn it over to this sugar organization or the sugar pool, in the expectation that members of their organization would turn their burlap business over to you?

Mr. RUSH. As regards sugar, we would take it ourselves.

Mr. CHINDBLOM. Is there any commodity you would not take yourselves, but that you would handle in the way I have suggested?

Mr. RUSH. No. When a thing is offered to us, sir, it comes into the North American direct, just as if you insured your house with me. What we do with it outside of the reinsurance arrangement is nobody's business except our own, provided we comply with the State laws.

Mr. CHINDBLOM. I am trying to find out what you do; I am trying to make it our business and to find out what you do.

Mr. RUSH. We would keep that. The business that comes in, not already arranged for, we keep all of it we consider it prudent to carry. If the line offered was more than we considered prudent to carry, we would reinsure wherever we got the best market. It might be with one of these companies and it might be with some other.

Mr. CHINDBLOM. If sugar were offered to you, or if cotton were offered to you——

Mr. RUSH. If cotton were offered to us for export, it would go into this cotton reinsurance exchange. The import cotton for the mills of New England is not in that exchange because the value of that cotton is not so great.

Mr. CHINDBLOM. But you yourself would turn it over to the cotton exchange?

Mr. RUSH. On all foreign cotton. On sugar we would not, because we are not in that agreement.

Mr. EDMONDS. You only reinsure with the members of your association where it is a commodity that is covered by your reinsurance arrangement?

Mr. RUSH. We carry out our part of that contract, and if we did not they could bring suit against us and make us.

Mr. EDMONDS. You are a member of the lumber association up on the Great Lakes?

Mr. RUSH. I believe so.

Mr. EDMONDS. There is a lumber association up there and you belong to that?

Mr. RUSH. We have had so many lumber associations, I would not like to answer that without looking it up. Let me look that up, Mr. Chairman.

Mr. EDMONDS. The lumber agreement on the Great Lakes—there seems to be an agreement up there that fixes the rates for the Great Lakes, and it has an effect on the lumber business in other directions. Will you look that up and let us know what you do about that?

Mr. RUSH. I will look that up, Mr. Chairman. I do not believe we do much on the Lakes.

Mr. EDMONDS. Then there is a joint grain arrangement on the Lakes?

Mr. RUSH. Yes.

Mr. EDMONDS. You belong to that?

Mr. RUSH. Yes.

Mr. EDMONDS. What is its function?

Mr. RUSH. Just the same as the other lines, to reinsure and distribute the risk. With wheat at $2.20 a bushel, it runs up into pretty big money.

Mr. EDMONDS. I notice they call this association the " Joint grain certificate."

Mr. RUSH. That would be a number of companies who issued one certificate.

Mr. EDMONDS. A combination certificate?

Mr. RUSH. John Smith, we will say, insures a million dollars' worth of grain in some warehouse at Buffalo. Instead of having the certificate of the North American, the Fireman's fund, the Aetna, and some other individual companies, three or four companies issue that certificate jointly.

Mr. EDMONDS. It is a partnership policy?

Mr. RUSH. It is a partnership arrangement; a partnership policy.

Mr. EDMONDS. Is the membership of that association limited? Any company can do that, can't it?

Mr. RUSH. Yes: if it can get the business.

Mr. EDMONDS. Any three or four companies who did not belong to any association or anything like that, who could get the business, could go ahead and do that?

Mr. RUSH. They could, if they persuaded the insured that they could do that business, and we would fight them and try to prevent them getting in.

Mr. EDMONDS. And if you did fight them——

Mr. RUSH. The result of that would be a lower rate for the insured.

Mr. EDMONDS. If they took your rates, you would not fight them?

Mr. RUSH. No; if they took the pool rates, we would not bother them.

Mr. EDMONDS. Are there any territorial divisions made between these associations?

Mr. RUSH. No, sir. Pardon me; I did not quite understand the question about territorial divisions.

Mr. EDMONDS. When we look over the list of the different associations in existence—the New Orleans River Association, the Lumber Agreement on the Great Lakes, the Provincial Underwriters' Association, the Steam Schooner Agreement of the Pacific Coast, the Postal Insurance Underwriters' Conference, Tourist-Baggage Insurance, Atlantic Inland Association, American Institute of Marine Underwriters, Board of Underwriters of New York—quite a number of these seem to have a local name attached to them. Does that mean there is a territorial division?

Mr. RUSH. No; it means the company is engaged in doing business in that territory. I might be doing business up in Providence, or I might do business on the Mississippi; a company can belong to this association no matter where it is located.

Mr. EDMONDS. What do these associations do?

Mr. RUSH. They try to improve conditions for the companies writing business in those localities.

Mr. EDMONDS. They are just local business associations for those localities; they are not rate-recommending associations or anything like that?

Mr. RUSH. Not as a rule. I think the Mississippi River Association recommends rates.

Mr. EDMONDS. Most all business associations do recommend rates or what they think is a fair price to charge for the service.

Mr. RUSH. Yes.

Mr. EDMONDS. They have to do that in order to bring the members who have not the experience that the others have to time, so that they will know the reason why that price should be charged?

Mr. RUSH. Yes.

Mr. EDMONDS. It would be natural that these associations would do that, I presume?

Mr. RUSH. Yes.

Mr. EDMONDS. But they are just general associations of insurance men?

Mr. RUSH. Yes.

Mr. EDMONDS. Who meet together?

Mr. RUSH. Who happen to be dealing with that particular kind of business, who may be doing it to-day but not to-morrow.

Mr. EDMONDS. They do not form themselves in a cotton agreement or anything like that, but it is just a general business association?

Mr. RUSH. Fluid.

Mr. EDMONDS. There is no division made as to territory?

Mr. RUSH. No; you can go into any territory where you think you can make money, and you can get out of any territory where you think you are going to lose money.

Mr. EDMONDS. Is there any agreement between various underwriters as to the different lines of insurance that they should go into?

Mr. RUSH. None that I know of.

Mr. Edmonds. Has the excess profits or Federal insurance tax had any effect on the insurance rates?

Mr. Rush. Well, you have to get rates to pay your taxes. Last year our taxes were 36 per cent of our capital, and we had to get rates to pay that.

Mr. Edmonds. Thirty-six per cent of your capital or your earnings?

Mr. Rush. Our capital. Our State, municipal, and Federal taxes amounted to 36 per cent of our capital of $4,000,000. Now, as that has to come from the insured, it has affected the rates.

Mr. Edmonds. Do they have a pretty high tax in England too?

Mr. Rush. They have now the excess profits tax, so I am told. I have not been there since the war was over.

Mr. Edmonds. That has nothing to do with the difference in rates between England and here I imagine?

Mr. Rush. If the tax of one country was noticeably different from another, I can not see how it would fail to affect the rates, either higher or lower.

Mr. Edmonds. Suppose the excess profits tax were removed on marine insurance?

Mr. Rush. I think the rates would ultimately tend downward.

Mr. Edmonds. Wouldn't they go down right away?

Mr. Rush. I do not think they would go down for a time, but they would go down as there was competition. Of course it is human to try to make as much as you can; but if you found in the course of a week or two weeks or a month you were losing business to a competitor who was reducing his rates, you would have to reduce yours.

Mr. Edmonds. Suppose we did not charge any excess profits tax on companies distinctly American and without any foreign affiliations?

Mr. Rush. It would lower the rates, I think. Naturally the man who does not have to pay the tax can do the business at a lower rate than can the man who has to pay the excess profits tax.

Mr. Chindblom. Would it be appreciably lower?

Mr. Rush. I think so. Certainly it would be appreciable.

Mr. Edmonds. You know what the taxes were in comparison with the premiums last year; you know how much of the premium it took, and don't you think if we removed the excess profits tax on American companies, that it would benefit our marine insurance business?

Mr. Rush. Only it would be—I think probably you would run into treaty complications right away with the foreign nations. However, that is not my business; that is up to you gentlemen.

Mr. Edmonds. Yes; we are used to that. Just at the present time treaty complications are only a matter of detail with us.

Tell us something about your Pennsylvania State tax. Do you pay a premium tax in Pennsylvania?

Mr. Rush. We pay a capital tax, first and foremost, on our capital; then we pay a tax on our premiums, our gross premiums, fire and marine.

Mr. Edmonds. Is the premium tax in Pennsylvania any higher than any other State?

Mr. Rush. I do not think so. Generally we have reciprocal laws. If a State charges a higher tax to a Pennsylvania corporation than

it does to its own, why then Pennsylvania charges a higher tax to the corporation of that other State.

Mr. EDMONDS. What is the corporation tax in Pennsylvania now?

Mr. RUSH. I think it is 4 mills, four-tenths of 1 per cent. I think it is something like 2 per cent; but I would like to refresh my memory on that.

Mr. EDMONDS. And the premium tax?

Mr. RUSH. That is what I mean; the corporation tax——

Mr. EDMONDS. Is 4 per cent.

Mr. RUSH. I think it is 4 mills, four-tenths of 1 per cent. I think the premium tax is 2 or 2½.

Mr. EDMONDS. Is that pretty much the same as every other State?

Mr. RUSH. Pretty much. Then they also have a municipal tax in some States, which are lump sums, to keep up their fire departments.

Mr. EDMONDS. That is not true of Pennsylvania?

Mr. RUSH. No.

Mr. CHINDBLOM. Does the marine insurance have to contribute to that?

Mr. RUSH. I think it does as a rule. I know we have to pay a tax on the same bale of cotton in both Texas and in Massachusetts. Texas says "I am going to tax you on that cotton," and Massachusetts says "I am going to tax you on that cotton too." We have to keep an account and pay a tax to both of them, and it does not seem right to me.

Mr. CHINDBLOM. That is the fire fund tax for the fireman's fund?

Mr. RUSH. It is for some State tax. I know we tried to get it adjusted and to get one State or the other to collect it, but they would not give it up.

Mr. EDMONDS. What is the reason for the premium tax?

Mr. RUSH. They need the money.

Mr. EDMONDS. Is it presumed to be used to carry on the State insurance department?

Mr. RUSH. Yes, sir. It is also a great deal more than is necessary for that, and it is used for other State purposes, almost universally.

Mr. CHINDBLOM. It is a little velvet?

Mr. RUSH. It is a little velvet on the side, a good deal of velvet.

Mr. EDMONDS. Do you know whether the brokers have any agreements among themselves with regard to business?

Mr. RUSH. I can not testify about that, sir; I do not know what they do. They might and they might not.

Mr. EDMONDS. That one man will take up one line and another another.

Mr. RUSH. I think any broker will take up most any line he can make money on, and that he does not hesitate to take anything he can get.

Mr. EDMONDS. Do you know of any brokers who have understandings with underwriters in foreign countries to export this business?

Mr. RUSH. The big ones have correspondents over there; the big brokerage houses have foreign correspondents of course; otherwise they could not place the business.

Mr. EDMONDS. Does that business escape the tax here, the exported business?

Mr. Rush. Let me see how to answer that now.

Mr. Edmonds. You understand what I mean by export business?

Mr. Rush. Yes. I think if it is placed—now I am not referring to the recent revenue act that imposed a penalty of 3 per cent on that exported business. I believe that is being paid on imports too. It was ruled by the Department of Justice that it could not be collected on the exports, because that was a tax on American exports. That, I think, is being paid. Prior to that the business was placed in a foreign country, and a tax was not paid in the United States or in the States they are in; they only paid the tax to the foreign Government.

Mr. Edmunds. They all did have a tax to pay on that side?

Mr. Rush. They paid their own foreign Government's tax, yes. When I say "they," I mean the companies that took it; not the broker.

Mr. Edmonds. When you reinsure in a foreign company, do you pay a tax here on that policy originally and then do they pay a tax on the reinsurance in the other country too?

Mr. Rush. If it is a company that is admitted to do business here, a foreign company admitted to do business, we get credit for the reinsurance we place with them. If it is a nonadmitted company, it is just as though we did not effect reinsurance; we pay the tax on the full amount.

Mr. Edmonds. You get taxed on the full amount?

Mr. Rush. Just as though we had not reinsured.

Mr. Edmonds. The admitted company pays the tax here of course?

Mr. Rush. Of course.

Mr. Edmonds. If it is only a branch of a London company, then it pays a tax on the London company also?

Mr. Rush. It pays the English tax on the English receipts.

Mr. Edmonds. Not on American receipts?

Mr. Rush. I am unable to say what the recent legislation would be, but I believe the whole thing came in excess profits, no matter from what source it came. You understand this English testimony I am giving you, gentlemen, is being given on the best of my knowledge, information, and belief. I do not know what all the laws over there are.

Mr. Edmonds. Oh, yes. We do not expect you to know everything about insurance companies, although we believe you know a great deal. We hope you know more about the United States end of it, and we hope you do not know anything about the English end of it.

Mr. Rush. I do not know as much as some of them do.

Mr. Chindblom. In the beginning of your testimony you said the foreign correspondent, in London, to whom application was made for a rate, would know at once the marine-insurance situation in France, Spain, and other European countries. Is the foreign correspondent in London in better possession of those facts, or is he better able to be in possession of those facts, than a man in the business in this country?

Mr. Rush. The marine-insurance market of the world centers in London. They have correspondents all over the world. I should therefore say that at present they had better sources of information as to the marine-insurance markets of the world than we have here.

In other words, we have to ask them for information. But if we ask them for information, they will give it to us, and they would have it and we would have to ask them in order to get it, because they have done a large foreign trade in their own ships and the United States has not.

Mr. CHINDBLOM. Have any of the American companies, so far as you know, direct sources of information in France, Spain, and the main countries of Europe?

Mr. RUSH. Only as regards losses. We have settling agents over there and we could ask them about loss settlements. We have no foreign correspondents in France or Spain.

Mr. CHINDBLOM. You could not get such information as to rates very readily?

Mr. RUSH. We would apply to London for it.

Mr. CHINDBLOM. Can you tell us when you resigned from the American Hull Association?

Mr. RUSH. I think it was a couple of years ago, or a year ago; somewhere around there. It has been some little time. I tried to resign for several years, and they said "please stay in."

Mr. CHINDBLOM. I do not understand whether it was a matter of years, months, or weeks?

Mr. RUSH. I think it was years; at least a year, I should say.

Mr. EDMONDS. There has been some information sent to us here, and I want to ask you about it, Mr. Rush. Do you know of any such thing as a discrimination in the rates of insurance on the same class of insurance, on the same cargo, between the same ports, and on the same steamer, and under the same policy conditions?

Mr. RUSH. Surely. As regards the merchant, that factor comes in. I am very glad you asked that question, Mr. Chairman. We make rates to insure a man. He gets rates on his own ability. I might have 10 merchants importing the same class of goods, let us say from Great Britain to New York and they would get 10 different rates, each based on their own handling of the goods. That is, the fellow who is a good merchant and reduces his losses, makes good salvages, can get a better rate than the careless and negligent. And it is right it should be so. You stand wholly on your own bottom in marine insurance.

Mr. EDMONDS. Now if you make a rate like that to the careful merchant and the man who is careless having a higher rate knows you made a better rate to the other merchant, would he not go to some other insurance company to place his insurance?

Mr. RUSH. He would.

Mr. EDMONDS. Could he place it?

Mr. RUSH. Yes. But if they were a well-managed insurance company, as soon as they found it out they would begin to raise his rate. I can illustrate it this way: I had a policy covering woolens of a Philadelphia merchant, William Steele & Son, I think it was, some importers, and they imported cloth from the other side. They had a lot of damaged cloth come in, on which they said their claim was, I think, twelve or thirteen hundred dollars. We paid them for it. After six months they came back and returned all that money to me except $160, because they said they had been able to refinish that cloth and sell it with only that net loss. Now the fellow who does that,

you understand, is a better risk than the fellow who just says that cloth is injured and sends it to sale at auction.

Mr. EDMONDS. The personal equation enters into the making of rates for marine insurance?

Mr. RUSH. Very materially.

Mr. CHINDBLOM. Does that apply to hull insurance as well?

Mr. RUSH. That is a fallacy that has run through practically every bit of insurance legislation I have seen in the United States. There seems to be an obsession on the part of people when you insure a risk, insure a house or a ship or anything of that kind, that things that have exactly the same physical hazard ought to have the same rate. You do not do anything of the kind. You insure a man against loss to that property, and while you take into consideration the construction of that property and its maintenance, it is the human faculty, that is a very vital part of that rate making, and it should be so.

Mr. CHINDBLOM. Is there any locality in this country where that principle is applied to fire insurance?

Mr. RUSH. I do not think so, but I think it ought to be.

Mr. CHINDBLOM. I know, proverbially, some people have difficulty in getting fire insurance?

Mr. RUSH. Yes.

Mr. CHINDBLOM. But that only relates to the difficulty in getting it, and no different rates apply so far as I know.

Mr. RUSH. No. There ought to be, and I know they are applied in marine insurance.

Mr. EDMONDS. Fire insurance is virtually under supervision, and the rate for fire insurance on a piece of property is practically settled for all companies.

Mr. RUSH. It is subject to supervision of the State authorities.

Mr. EDMONDS. Yes. But marine insurance has been free as the air.

Mr. RUSH. Marine insurance has been free as the air, and I hope it will always continue so. It is much better for the insured.

Mr. EDMONDS. And it is liquid?

Mr. RUSH. It is liquid.

Mr. EDMONDS. It goes on water and stays on water?

Mr. RUSH. Yes. To give an illustration, some years ago the legislature in Texas passed a law bringing marine insurance under the fire-rating bureau. We got hold of the commissioner and said, "Look here, you gentlemen in Texas are going to lose all your marine premiums, because long before we can get up to your board and can get a quotation on any individual risk, along comes the fellow in London, or Japan (we have a lot of companies in Japan), and they have that thing buttoned up in their inside pocket, and you will have to whistle for it. We have to give an answer, yes or no, and we do not have the time to come to your board to approve the rate."

Mr. EDMONDS. I do not think any of us have any idea like that. We realize the business has to be liquid. As a matter of fact, we went before the Committee on Interstate and Foreign Commerce the other day. They proposed to put coastwise and, rather indefinitely, the foreign trade, under the Interstate Commerce Commission, which is regulatory, of course.

Mr. RUSH. Yes.

Mr. EDMONDS. And one of the arguments was that shipping must be liquid. So I presume shipping insurance must be liquid.

Mr. RUSH. It has to be.

Mr. EDMONDS. Do you know of any case where brokers were allowed excess commissions to induce them to divert desirable business from one company to another?

Mr. RUSH. I have my suspicions.

Mr. EDMONDS. There is nothing to prevent that.

Mr. RUSH. You can make any commission you want.

Mr. EDMONDS. There is nothing to prevent that in the law?

Mr. RUSH. No; not that I know of. Out of the 5 per cent there is not very much margin, as you can see.

Mr. EDMONDS. No; but maybe that is the reason you have a 5 per cent profit, and that is the reason we are going to try to help you raise that.

Mr. RUSH. Five per cent profit is a good profit and I am not kicking.

Mr. EDMONDS. You are satisfied with five?

Mr. RUSH. If I can make a 5 per cent profit, year in and year out, I will think I have done will.

Mr. EDMONDS. I presume in insuring the boats of the Standard Oil Co. that personal equation enters into it very greatly, does it not?

Mr. RUSH. I should think so. We did not insure the Standard Oil boats for a great many years.

Mr. EDMONDS. I understand they could get a very much better rate?

Mr. RUSH. This is my own personal view; some of my colleagues would disagree with me, but I have always felt those big American trusts were mighty poor subjects for insurance.

Mr. EDMONDS. Subjects for what?

Mr. RUSH. Subjects for insurance; because they are so big and strong they do not need it. What difference does it make to the Standard Oil if it should lose a vessel or a cargo? They are bigger than all the insurance companies that try to protect against these losses.

Mr. EDMONDS. It seems to me it would pay them to carry their own insurance?

Mr. RUSH. I think they took that view of it for a number of years, and only took out insurance when they found they could make money on it.

Mr. EDMONDS. It is stated here as evidence of London's determination to prevent the development of the American insurance market that they have increased the rate on the English hulls three times in the last two years without making any increase in the insurance rates on American hulls. What do you know about that?

Mr. RUSH. I am unable to testify as to what has been done in England.

Mr. EDMONDS. You never heard that?

Mr. RUSH. No.

Mr. CHINDBLOM. You do know that they have made no substantial changes in rates on American hulls during that time?

Mr. RUSH. I do not believe they have made any substantial changes, sir.

Mr. EDMONDS. And we have information that they have made advances on English hulls.

Mr. RUSH. That may be so.

Mr. EDMONDS. And this says that from the experience of these underwriters it can be further brought out that the rate is so low on the American hulls that the business is actually run at a loss.

Mr. RUSH. Very likely.

Mr. EDMONDS. That their profitable lines of business for other countries counterbalance their losses on American hulls, but that American companies as a rule have no outside insurance to counterbalance those losses?

Mr. RUSH. I think that is probably so.

Mr. EDMONDS. And yet at the same time you think if the hull insurance business was profitable, we have enough insurance companies in this country to take care of it?

Mr. RUSH. Plenty, providing the rates were right.

Mr. EDMONDS. Then it speaks here of rebates, of the brokers making rebates. Does the law prevent that? Understand, I do not mean surreptitiously; I mean openly they can not make them?

Mr. RUSH. They are not supposed to do so, I believe. Of course the laws of the various States vary.

Mr. EDMONDS. Still the law of Pennsylvania prevents a broker making a rebate?

Mr. RUSH. Yes, sir; I think so.

Mr. EDMONDS. And New York, too?

Mr. RUSH. I think so.

Mr. EDMONDS. Does that cover only fire insurance brokers, or does it cover everybody?

Mr. RUSH. It is supposed to cover everybody. But as I say, I do not see how you are going to find it out.

Mr. EDMUNDS. I appreciate that. Then, this man says that rebates are bad. You agree with him, don't you?

Mr. RUSH. I agree with him; yes. What brokers sometimes do is to contract to insure a fleet or property for so much money, and then they go out and try to get rates at that that will bring them out a little more than square. Sometimes they do and sometimes they get stuck, and it comes out of their own pockets.

Mr. CHINDBLOM. It is hardly a brokerage business then, is it?

Mr. RUSH. I think it is extremely legitimate, sir. And they do do that, and sometimes they run up against it.

Mr. CHINDBLOM. Do you write building insurance?

Mr. RUSH. All we can get.

Mr. CHINDBLOM. I presume you do, but is the volume of it considerable?

Mr. RUSH. I think the statement shows 2¼ per cent of our volume of business.

Mr. CHINDBLOM. Most of that goes abroad, doesn't it?

Mr. RUSH. A good deal of it goes abroad.

Mr. CHINDBLOM. Are the rates unprofitable?

Mr. RUSH. No; they are profitable; as far as our statistics show they are.

Mr. EDMONDS. What reason can you advance for the business going abroad when the rates are profitable here?

Mr. RUSH. The American underwriters don't know it. This is confidential, you know.

Mr. CHINDBLOM. Is it a fact that the foreign insurance companies at one time had a monopoly in that field?

Mr. RUSH. I think they had more at the beginning than they have now. The rates look pretty low sir—a quarter per cent. It looks pretty low to a good many companies, but statistics show it is a pretty good business. You take a pretty big line on one risk. You may have 20 of them in a row, and it all runs up.

Mr. CHINDBLOM. I judge it is pretty much like other building risks; it isn't any more than house building.

Mr. RUSH. I am referring principally to steel. Depends a good deal on the experience of the yard. For instance, a fellow in the New York Ships, Cramps, we would insure them very much quicker than we would some of these new yards.

Mr. CHINDBLOM. There are, of course, other elements of hazard that don't occur on others?

Mr. RUSH. It usually covers launching. A breakdown costs a good deal of money.

Mr. CHINDBLOM. Do you maintain superintendents of construction?

Mr. RUSH. We do not.

Mr. EDMONDS. We are very much obliged to you, Mr. Rush. It has been a pleasure to hear your story. Your people have been greatly alarmed about our meetings here, but I don't think you will find us as bad as we are reputed to have been.

AFTER RECESS.

The subcommittee reassembled at 1.30 p. m.

Present: Representatives Edmonds (acting chairman), and Chindblom.

Mr. EDMONDS. Mr. Rush, did you want to add anything to your statement?

Mr. RUSH. No, sir.

Mr. EDMONDS. All right. Mr. McGee, will you take the stand?

TESTIMONY OF MR. WILLIAM H. McGEE.

(The witness was duly sworn by Mr. Edmonds.)

Mr. EDMONDS. Do you want to supplement your former statement in any way?

Mr. MCGEE. I think not: if you are going to ask me about the same line of questions that have been asked before, I think there is no preliminary statement necessary. I would like to make the matter of so-called pools and things of that kind a little bit clearer, perhaps, than they are in the record now; but if you are going to ask the questions, they will come up in the regular order.

Mr. EDMONDS. Suppose you go ahead and explain a little. You have heard this morning about the pool arrangements. Suppose you just go ahead now and explain your idea of the pool arrangements.

Mr. McGee. The principal pool that I would mention here—we do not like to use the word "pool," because it is not a pool. The arrangements that exist are reinsurance arrangements, and they arise out of the very large values which apply on single shipments and on single vessels, on the three or four commodities which do enter into reinsurance arrangements. The burlap arrangement has been mentioned several times. As I had a great deal to do with the early formation of that—the details of the formation—perhaps I can make the reason for that clear.

At the time that the burlap reinsurance arrangement came along we were all of us being confronted with terrifically large valued shipments for individual shippers. For instance, one shipper that occurs to me in Boston—they would have shipments that would be valued at five and six hundred thousands dollars in a single steamer. That manifestly is way beyond the capacity of a single company. When those shipments would be made, frequently the insurance companies (because there are two or three of them) whose policies had been issued to cover that business, would not know of the name of the steamer until a considerable period of time had elapsed, and they were all hurriedly rushing around through the American market and through what other markets were open for the necessary reinsurance, and they were having to pay all sorts of fancy rates, because they were going into markets that were already crowded. The markets were already crowded because other companies who were not participating in those particular policies found themselves in identically the same position, or probably would find themselves so, dependent upon conditions that developed afterwards, and they would be afraid to take the lines for fear that their customers might ship on those steamers too large values.

Of course, the capacity of a steamer is limited. Once we know what is on board, we can then deal with the question of reinsurance with known facts; but there is a long interim of time when everything is up in the air. Nobody knows whose cargo is on board. One shipper may have three or four hundred thousand dollars' worth of burlaps, and another shipper, who might have insured by the same identical company or sets of companies, might have two or three hundred thousand dollars' worth of goatskins or fur skins. It was that uncertainty for a period of time that largely led to the formation of a reinsurance arrangement, the purpose of which was that we throw our lines into one common reinsurance arrangement, and what each one has is reinsured with all the others; so that when the final developments occur, if only two or three of the companies happen to have the lines, the rest that may be insured in Europe or may be insured in Calcutta, those who have the business to place, have placed their surplus lines with other companies doing business in New York or doing business in the United States. Otherwise we should be driven to the expedient of cabling our reinsurance orders to Europe.

The result of that burlap reinsurance arrangement was that it kept in the American market a large volume of business which might have gone, and would have gone to foreign markets, because the American companies, or the companies doing business in this market, the American market, would be afraid to take the reinsurance be-

cause of a fear of having their own commitments to look out for. The net result is that business is kept here, which otherwise would have completely gone out of the country.

Mr. CHINDBLOM. Are the 172 shares that constitute the burlap arrangement distributed among American companies?

Mr. MCGEE. It is distributed amongst companies transacting business in New York; American and admitted companies—foreign companies. When the reinsurance arrangement was originally formed it consisted of 100 shares, and the divisions were in per cent. As new companies came in, and as additional reinsurances were required, other companies were admitted, and instead of changing the percentages, which would have meant a lot of recalculation, we simply changed the denominator. Instead of one company getting ten one-hundredths, that company got ten one-hundred-and-seventeenths, or whatever it may be. The denominator has been changed as additional companies have been taken in.

Mr. EDMONDS. Were these reinsurance arrangements in existence before the war?

Mr. MCGEE. Yes.

Mr. EDMONDS. For a long time?

Mr. MCGEE. Yes; for some things. I have forgotten when the burlap reinsurance was formed. My impression is it was formed somewhere about 1914.

Mr. EDMONDS. How about sugar?

Mr. MCGEE. There is no such thing.

Mr. EDMONDS. When was the cotton formed?

Mr. MCGEE. Cotton is about 10 or 11 years old. On the cotton reinsurance arrangement you have the fact of a terrific accumulation of cotton on shore, exposed to a single fire, and with the almost impossibility of finding out whose particular cotton it is that is part of that congestion, because it may be one owner's to-day, and therefore insured by one insurance company, and another owner's to-morrow, and therefore falling under some other policy. And, of course, on the cotton reinsurance there is the utmost difficulty in tracing. You can not tell sometimes until a year after a vessel has arrived at her destination as to just exactly what value any individual insurance company had on that steamer.

Mr. EDMONDS. I suppose these underwriting syndicates, or whatever you call them, set the rate between themselves?

Mr. MCGEE. They set the rate at which they will reinsure one another; yes.

Mr. EDMONDS. But they set the open rate, too, for the customer?

Mr. MCGEE. Not necessarily; although it would naturally follow——

Mr. EDMONDS. Naturally all those companies would have the same rate, or they could not do business together?

Mr. MCGEE. Naturally.

Mr. EDMONDS. Therefore they had to, by some means or other, arrange the rate?

Mr. MCGEE. Yes; to a very large extent; and yet I believe it is quite true that frequently one insurance company will have to pay more to its reinsurers than it has itself received. I know our own company has suffered under disabilities of that kind.

Mr. EDMONDS. But not with reinsurers that are in this agreement or arrangement? Naturally they would transfer with each other at the same rate?

Mr. MCGEE. No; they do not—not necessarily. Of course, where there is a legitimate condition existing, I think they would probably go a long way toward helping one another; but the reinsurance arrangements are reinsurance arrangements, and as such they fix the terms on which each company writes that business.

Mr. EDMONDS. These associations have officers?

Mr. MCGEE. Yes.

Mr. EDMONDS. This reinsurance association on burlap—does it have a chairman?

Mr. MCGEE. No; it has not. I think the burlap reinsurance arrangement is a very informal one.

Mr. EDMONDS. How about the cotton; they have officers, do they not?

Mr. MCGEE. No; they do not have officers in the ordinary acceptation of that term. They have one or two committees, but, as a rule, the cotton business is handled by the entire membership. In other words, when there is anything to be discussed, everybody comes and we discuss it at the table.

Mr. EDMONDS. At a dinner?

Mr. MCGEE. No; not yet.

Mr. EDMONDS. You have not got to that point yet?

Mr. MCGEE. Not yet.

Mr. EDMONDS. Let me ask you this: Was there any endeavor, in the prorating of shares in those reinsurance arrangements, to arrange so that a certain amount of that reinsurance would be done in foreign markets and a certain amount of it done in American markets?

Mr. MCGEE. Not in that way, or not to that end. The arrangement of the shares was always based as closely and as accurately as it could be upon perhaps two factors: First, the amount of business which an individual company had on its books; next, the line-carrying capacity of the company. A company of small size and the ability to carry a small net line might have a particularly large account on its books and therefore would naturally and normally reinsure, say, 80 per cent of its account. That would be the effect of the reinsurance—that they had paid out 80 per cent of their income, although they might not have measured it by 80 per cent.

Another company having precisely the same sized account, but being a larger company and perhaps better established, older established, might be willing to carry 20 per cent of that liability, and therefore they would reinsure something else. So those factors were taken together and an agreement made as to how much each one of the companies would reinsure of the business.

Mr. EDMONDS. Even after they did reinsure, if the risk was very large some of them probably reinsured it again?

Mr. MCGEE. They probably declared it under excess treaties or something of that kind, but I should doubt that they would reinsure again. They might under some conceivable circumstances.

Mr. EDMONDS. Take, for instance, the cotton pool——

Mr. MCGEE. I was thinking of the burlap pool.

Mr. EDMONDS. Well, take the burlap. Chubb writes 30 per cent in his companies?

Mr. McGee. Yes.

Mr. Edmonds. All of those companies are big reinsurers in foreign companies. Would it not naturally follow that a certain proportion of this, after it had been written, would be written in foreign companies again?

Mr. McGee. Yes; but——

Mr. Edmonds. Take a big risk—say 30 per cent on a $3,000,000 risk; that would be $900,000—Chubb would divide that between his companies, probably?

Mr. McGee. He would divide that.

Mr. Edmonds. If it was too big for his companies, I presume they would reinsure.

Mr. McGee. It would go out, in all probability, as what we call excess reinsurance. I expect every marine insurance company carries what are commonly known as excess reinsurance contracts. Every well-regulated marine insurance company sets down what liability it wants to assume on any given risk. We call them sometimes our retained manifests, and the purpose of that is to have a level average of liability. Some companies, for instance, fix a schedule, dividing the various steamship lines into classes. We will say that on class A line steamers, or steamers which come in this class A, that company will measure its maximum line at, say, $50,000; on a class B it may say $30,000; in class C, $20,000. Class D perhaps is tramps and general rough stuff; that they might carry only $10,000 on. Now, they carry what are called excess reinsurance contracts, which are obligatory contracts generally, and are generally arranged with foreign companies, because there is no market for them in these countries, because everybody in America would want the same thing.

Now, if a company having such an excess contract has a surplus over the line it has fixed as its retention, it declares those excesses to its reinsurance treaty. So in some way of that kind, possibly, Mr. Chubb's companies would pass on to foreign companies the surplus lines they would have over their retentions.

Mr. Edmonds. I notice here, taking the cotton, the burlap, and the sugar pools, that there are four companies that seemed to have the lion's share of those pools in each case; I will call them pools; they are not exactly pools; we understand that.

Mr. McGee. It is a short word, and it is very easily used.

Mr. Edmonds. Chubb & Son, the Federal Co., Appleton, United States Lloyds, the Fowler agency, and the Simpson agency with the American and Foreign. In the cotton pool those four concerns carry 65/120; in the burlap pool they carry 87/172. In the sugar pool poor Fowler got left out; it seems unfortunate for him; and these three concerns that were left wrote 90/100 of it. That is the information I have; I think it is fairly good. The reason I make the remark about these companies is not that I am criticizing them, understand; I am only asking for information.

Mr. McGee. Yes, sir.

Mr. Edmonds. All of these companies appear to us, from the way we have looked at it, and the questions we have asked, and from the information we get from other places, to be very closely allied to foreign interests.

Mr. McGee. So far as sugar is concerned, I do not think there there is any pool or reinsurance arrangement. I never heard of that. There is, however, this condition in the sugar business, or rather under the war conditions: When the United States Government formed the Sugar Purchase Commission, I think it is, or the Sugar Import Commission—at any rate it was the body which regulated and handled the imports of sugar from Cuba, and which had the distribution of the shares, what share of sugar should be used in the United States and what would go to England and France—that body, differently from almost any other of the Government commissions, continued the placing of marine insurance with private companies instead of forming a Government insurance fund and taking care of it there. They did continue the business with private insurance companies, and as I understand it, they picked out four of the leading companies; that is, those which had done the greatest amount of sugar——

Mr. Edmonds. Mr. Hoover consulted Mr. Chubb, who was on the War Board at that time, and they arranged to take it in three or four concerns; is that right?

Mr. McGee. I was not present there, but that is borne out, I think, by the results. The four companies were American companies—the American and Foreign, the Federal, the United States Lloyds, and the Atlantic Mutual.

Mr. Edmonds. The Atlantic Mutual?

Mr. McGee. Yes.

Mr. Edmonds. Well, he did not get more than 10 per cent, I guess, because the others each got 30 per cent.

Mr. McGee. I was under the impression, on the sugar, that it was divided into fourths between those four companies. Now, somebody in the Sugar Commission, I believe, suggested that those four companies should in turn divide into fourths with other American companies.

Mr. Edmonds. It was understood by Mr. Hoover that this insurance was to be placed in American companies?

Mr. McGee. In American companies; and in that way one of our companies got a share of it. That never was done in anything in the nature of a pool, as I understand it.

Mr. Edmonds. It may not have been a pool; it was an understanding or agreement.

Mr. McGee. We were invited in. They said, "You can have this share," and we were very thankful to get it. That was all of the sugar that was bought from Cuba.

Mr. Edmonds. It was all placed, in accordance with Mr. Hoover's request, with American companies?

Mr. McGee. I do not know at whose request, but it was all placed with American companies.

Mr. Chindblom. Was that done by the Requisition Board?

Mr. McGee. I believe it was.

Mr. Chindblom. Wall Street, New York?

Mr. McGee. I believe it was. I never came directly in contact with them.

Coming back to cotton and burlap, we are met with a condition which is a trade condition, and which I believe has a great deal of effect on the distribution of those businesses. The great cotton fac-

tors of the world are the Liverpool cotton merchants, and the Liverpool cotton merchants, of course, have a great deal to say as to where the insurance shall be placed upon the purchases of cotton which they make, or the cotton which is their property. Quite naturally, they say they want it in British companies; so that for that reason a large part of the cotton business of the country is placed with British insurance companies.

Mr. EDMONDS. Naturally the request of a customer would be——

Mr. MCGEE. He is more than the customer; he is the owner of the cotton.

Mr. EDMONDS. But you folks all seem to forget that this country has become the great creditor nation of the world, and you still fear competition, financial competition, from England. To-day this is the dominant country in the world, and we are trying to put you in the position of being the dominant financial factor in the marine insurance world, and yet you are all still afraid of the English market.

Mr. MCGEE. With us it is a condition, not a theory that confronts us.

Mr. EDMONDS. We want to break the condition; we want to reverse it.

Mr. MCGEE. And we are very thankful for that, and we are very anxious to cooperate with it, but I am just expressing now what was the situation when these organizations were formed. It was the same condition with the burlap business.

Mr. EDMONDS. That is what we are trying to do; we are trying to get to the point where we are going to be able to put you on top, in the proper position. We want you to realize that we are the foremost Nation in the world to-day, and we want you to come along.

Mr. MCGEE. We are very happy to be in that position, and I think most of the American companies are putting up a pretty stiff fight to secure and maintain just that position.

Mr. EDMONDS. Let us return for a minute to your hull underwriters. You are now chairman of the Hull Underwriters' Association, are you not?

Mr. MCGEE. Yes, sir.

Mr. EDMONDS. When did Mr. Chubb, and Mr. Fowler, and the rest of them withdraw?

Mr. MCGEE. They have not.

Mr. EDMONDS. Mr. Chubb was chairman?

Mr. MCGEE. Mr. Chubb was deputy chairman.

Mr. EDMONDS. Who was chairman; Mr. Fowler?

Mr. MCGEE. Mr. Fowler was chairman.

Mr. EDMONDS. And Mr. Chubb was deputy chairman?

Mr. MCGEE. Mr. Chubb was deputy chairman, and Mr. Herbert Appleton was deputy chairman. A year or so back, I think, Mr. Chubb expressed himself as feeling that he ought not to be an officer of an organization of that kind when he was connected with other Government affiliations. In other words, he was having something to do with the hull insurance, and he felt that he was in an improper position.

Mr. EDMONDS. They they removed themselves and put you in as chairman?

Mr. McGee. No. Mr. Fowler was at the point, practically, of retiring, you know. He has retired from business, and it came just about at the time when we had decided that it was inadvisable to attempt to continue making advisory rates, and I became the keeper of the corpse.

Mr. Edmonds. You are not making advisory rates now at all?

Mr. McGee. No.

Mr. Edmonds. I asked Mr. Rush a question this morning in connection with the hull rates. Is it true that the English have advanced their own home rates twice or three times, and let our American rates stand, so that they can gobble up the American business?

Mr. McGee. I think there is no question about it. We have seen the tariffs and seen repeated references to it—that they have advanced their own rates on English-owned hulls and have not advanced them on American hulls. I think there is no question about it.

Mr. Chindblom. Let us see if we can get anything like the time when the change occurred in the American Hull Association.

Mr. McGee. I think it was about May 1.

Mr. Chindblom. Of this year?

Mr. McGee. 1919.

Mr. Chindblom. Is that the time when Mr. Fowler practically retired——

Mr. McGee. Yes.

Mr. Chindblom (continuing). And when Mr. Chubb was replaced by yourself?

Mr. McGee. Oh, no; Mr. Chubb never was the chairman. Mr. Chubb retired as deputy chairman prehaps a year and a half or two years back. The association ceased making rates about May 1, it may have been June 1; but back in last October we discussed the advisability of ceasing to recommend rates.

Mr. Chindblom. What was the reason for that discussion in October?

Mr. McGee. The reason for it was the competitive situation in foreign countries, the growing market here amongst outside companies, and very largely the fact that four or five underwriters were doing a tremendous lot of work. We were having meetings together and we were having brokers come in to discuss their fleets with us, and we found the business was being placed elsewhere to a very large extent. The association was having the expense of surveying ships; we were getting the odium of making recommendations—odium so far as the shipowner was concerned—and yet the brokers were going elsewhere with the business. We saw no particular reason why we should be incurring expense and having trouble and getting nothing but trouble and expense for our pains.

Mr. Chindblom. Have you any notion why the brokers were going elsewhere with the business?

Mr. McGee. Because they could get better rates and conditions.

Mr. Chindblom. Were those foreign interests to which they went, where they got better rates and conditions?

Mr. McGee. Yes, sir.

Mr. Chindblom. Largely foreign?

Mr. McGee. Almost entirely foreign. Still there was a large outside market in New York; companies that operate entirely as free-lances.

Mr. Edmonds. The American companies worked as free-lances?

Mr. McGee. Yes; two or three in New York.

Mr. Edmonds. You have not cured them yet?

Mr. McGee. No.

Mr. Edmonds. Are they in process of being cured?

Mr. McGee. They are in process of being cured. It is pretty nearly akin to suicide.

Mr. Edmonds. I can realize that if it was found necessary by the English insurance men to raise their rates on hulls, that everything else had gone up, and they did not raise the rate in this market, very naturally the companies that were writing hulls in this market, being unable to raise their rates, were going to lose their business. Is that a correct statement of the case?

Mr. McGee. That is a correct statement of the fact.

Mr. Edmonds. So that is the reason why hull business is traveling to the other side; because the British insurance people are discriminating against their own ships and charging their own ships with a higher rate?

Mr. McGee. Yes, sir.

Mr. Edmonds. With the idea that they hope after a while to come back here and charge us a sufficiently high rate to make up for their losses during this time?

Mr. McGee. They are charging not only their own ships, but the ships of other maritime nations.

Mr. Edmonds. At a higher rate?

Mr. McGee. At a higher rate. London is the great——

Mr. Edmonds. You are beginning again. New York is the "great."

Mr. McGee. I appreciate that, but you still must recognize that London is the great underwriting center of the world, because the English mercantile fleet is tremendous. It always has been; and, of course, not only does the Englishman insure his hulls in London, but the Norwegian, the Spaniard, the Jap to a large extent, the Italian—they all go to London. Now, London gets such a large spread of hull business that the loss which they sustain on American hulls is lost sight of in the profits which they can make out of their own fleets and the fleets of other nations. Marine insurance is entirely one of volume and of spread.

Mr. Edmonds. We realize that.

Mr. McGee. And if you have a large enough volume, a losing business can be lost sight of for a considerable period of time. American hull underwriters can not do it, because we do not have that big spread of hull business. If our hull business shows us a loss, it is a serious matter.

Mr. Edmonds. I presume that should at any time conditions change so that you can write hull insurance, you would revive your American Hull Underwriters' Association and go to work?

Mr. McGee. The American Hull Underwriters' Association has merely suspended making rates and recommendations for a period, I think, of six months or nine months, or something of that kind.

We hope some day to come back together and see whether it is not possible to do something.

Mr. EDMONDS. Is that American Hull Underwriters' Association dominated by English or American influences?

Mr. MCGEE. I should say it was dominated by American influences. Of course there are Englishmen who are members of it. I do not think it is dominated by the Englishmen by any means.

Mr. EDMONDS. I do not mean the nationality of the men in the association. We find in going through our records that some brokers even are so pro-English that they make unpatriotic remarks, although they are American citizens. We ran across a case of that kind in one insurance company in New York, and we do not consider those men as American—men whose interest in our American market is simply to make money out of it, whose feelings are English, are not what we are hunting for. We are trying to make an American marine insurance market, and as long as it is dominated by English influences, certainly we can not make an American market.

Mr. MCGEE. The insurance market of New York unquestionably is dominated by English influences.

Mr. EDMONDS. There is no question about it.

Mr. MCGEE. I do not think there is any question about that; and it is dominated because the greatest number of companies with the greatest underwriting capacity are the great British companies.

Mr. EDMONDS. I think that is a good answer. That is true.

Mr. MCGEE. That is a fact. You only have to look at the records to see it.

Mr. EDMONDS. And that is what we want to try to cure if it is possible, if there is any way of holding this business in this country by expansion of our insurance facilities. You state in the first paragraph of your brief that you think our facilities are enough. They are not; they can not be.

Mr. MCGEE. The facilities are enough—pretty nearly enough, anyway—for the general run of business. It is the exceptional business where they are not enough. The trouble with the situation is that the facilities are large enough but the facilities are not used. If my own office, for instance, were to get a larger share, a larger spread of certain classes of business, we would very quickly absorb two and three times as much as we absorb now of that particular class; hull business, for instance. My own office writes a very small line. We write a very small line because we do not get, under the existing conditions, the number of single risks and the amount of line on each one of those risks that would warrant our carrying a larger one. It is a question again of volume and spread.

Mr. EDMONDS. Do you get much of the fleet risks?

Mr. MCGEE. Very few of them.

Mr. EDMONDS. They again go to the other side?

Mr. MCGEE. Yes.

Mr. EDMONDS. And when we come down to our Navy Department, that goes to the other side?

Mr. MCGEE. Very largely, almost exclusively.

Mr. EDMONDS. How do you work on the builders' risks?

Mr. McGee. We are not getting the builders' risk to any large extent, outside of the naval construction, because the Emergency Fleet Corporation's insurance fund takes it over.

Mr. Edmonds. Of course that is true, but that is your fault. If the Emergency Fleet Corporation had not done that, and had paid out the money for insurance, we would just have been sending that much more premium over to England, as far as I see it. I am not a believer in Government ownership, but you are putting us in the position of trying to keep this money in this country. There is no reason for being the creditor nation of the world and letting three or four hundred million dollars a year go out of the country in marine insurance premiums.

Mr. McGee. It goes out of the country. It does not come to the American companies, because the brokers who handle the builders' insurance business of this country seem to prefer the British market to the American.

Mr. Edmonds. Such as Wilcox, Peck & Hughes, Mather & Co., Johnson & Higgins, and Frank B. Hall & Co.?

Mr. McGee. Yes.

Mr. Edmonds. They seem to be strongly in love with their British cousins.

What do you suppose the English brokers—of course it is done with the acquiescence of the English Board of Trade—expect to gain by discriminating against their ships and charging them a higher insurance?

Mr. McGee. There is only one conclusion.

Mr. Edmonds. What is that?

Mr. McGee. That they hope to discourage American marine insurance companies from writing American hulls.

Mr. Edmonds. And also discourage the building up of the American merchant marine?

Mr. McGee. Well, yes; I think that is a fair inference to draw from that statement of facts.

Mr. Edmonds. You made the statement of fact, and I made it too, and that is that they were charging us less for our hull insurance than they agreed, and you know that is true; and therefore the only inference that can be drawn is that they are trying to undermine the American merchant marine.

Mr. McGee. Not only that, but they will consent to values on American hulls which they will not consent to on their own, which is merely another way of reducing rates, because the total premium payable on a single ship is calculated upon a smaller sum insured.

Mr. Chindblom. That would not benefit the owner in case of loss, would it?

Mr. McGee. Yes; because they have a potent duplex system of placing total loss insurance which takes care of the owner.

Mr. Chindblom. Would they pay a larger amount than the policy calls for, or would they replace the ship?

Mr. McGee. They never replace the ship. No; they would not place more than the policy called for, but they would have another form of insurance and another policy of insurance which would only come into play in the event of a total loss. That is what I meant by the duplex system.

Mr. CHINDBLOM. Beating the devil around the bush?

Mr. MCGEE. They effectuate a reduction in rates through placing a smaller amount on full policy conditions and placing enough additional to protect the owner in the case of a total loss of a ship, that additional insurance being placed in what we call P. P. I. insurance, or policy proof of interest.

Mr. EDMONDS. Do you write those, too?

Mr. MCGEE. To some extent; yes.

Mr. EDMONDS. Why don't you write them more, if they are such a good policy to get business with?

Mr. MCGEE. Why, we do not consider it a good policy to get business with.

Mr. EDMONDS. But you tell me that London is a wonderful center for marine insurance, and therefore they must know it all, and you can certainly afford to follow the leader.

Mr. MCGEE. The man who knows it all does not always know it all. The man who knows most about the risk is the man that is closest to it.

Mr. EDMONDS. When you were in full swing in the Hull Association the rates you were making on hulls were entirely governed, and probably to a certain extent determined, by the rates in London, were they not?

Mr. MCGEE. Partly; not entirely. The procedure in the case of the American Hull Underwriters' Association would be this: A broker would send either to the association or to some officer of the association a statement of the insurance that he wanted to place. The fleet is coming around for expiration in the course of a month or two, and the broker wants to know at what rates the American underwriters will renew it. The underwriters would be called together and the broker would be invited in. We would generally ask the broker to give us a statement of what the premiums had been over a period of time and what the losses had been and what the conditions were; and the broker stated his side of the case, what he thought he ought to have and what he thought the fleet was entitled to and what its record entitled it to, and then we would try to come as close to that as we could. In a great many cases we met the broker's needs. In a great many cases the broker would supplement such statement by the further statement that he had already renewed 25 per cent or 50 per cent of the fleet in London on last year's terms or that he had gotten a reduction. We would take that into consideration.

Mr. EDMONDS. Did you take his word or confirm it?

Mr. MCGEE. We took his word in some cases, but in others we found it advisable to find out.

Mr. EDMONDS. I was wondering whether you did not, because it looked like a fruitful place for playing two people against each other.

Mr. MCGEE. It depended somewhat upon who made the statement as to whether we took it or whether we checked it up. In a great many cases the rate recommended would be the same as was recommended in London. In a good many cases—quite as many, I think—we said, "No; the record does not entitle that ownership to any such rate, and we can not recommend any such figure as that." So we would recommend something which was quite different from London, and sometimes we found that the London market could not absorb

quite as much as the broker led us to believe and sometimes they could absorb a great deal more.

Mr. EDMONDS. Did your action in that way have any effect on the profit in the ship?

Mr. MCGEE. Not on the profit in the ship; no, sir; but on its result to the underwriters. If you had a fleet which had notoriously cost the underwriters year after year more than their premium income we would try to advance the rate up to a point where it at least would carry the losses on its record.

Mr. EDMONDS. Then in case he did not take your insurance he would go to London and get it?

Mr. MCGEE. He would go to London.

Mr. EDMONDS. In other words, it had no effect on the real earnings of the vessel?

Mr. MCGEE. Not at all, except in so far as the cost of the insurance would enter into it.

Mr. EDMONDS. Could you hold up the making of a rate in London on those people?

Mr. MCGEE. I do not follow you.

Mr. EDMONDS. Would they ask you in London what rate you had made in the matter?

Mr. MCGEE. Individual companies sometimes would, but I do not think in several years there has been anything in the nature of a conference of any official character.

Mr. MCGEE. There have been no official communications between the London Underwriters' Association and the American Hull Association, or any other of the associations?

Mr. MCGEE. Not for, I should judge, six or seven years.

Mr. EDMONDS. Nothing except social communications?

Mr. MCGEE. No. What would be done, if we wanted to sound out the London market, would be this: Some one of the members of the American Hull Underwriters' Association that represented a British company would cable to its head office and say, "What are your views?" or "What do the London markets suggest?" or "What can you find out?" I do not mean the London markets suggest; I should say the London underwriter would suggest—of that individual company.

Mr. EDMONDS. Would the brokers utilize this situation between the two countries to speculate every once in a while, in trying to beat rates down?

Mr. MCGEE. Unquestionably. Unquestionably the brokers have gone to London a great many times, with a great many fleets, and offered them long in advance of the time when they offered them in the American market. I think that is very commonly done; and they would inform us that they had placed so much in London, and take it on these terms or leave it.

Mr. EDMONDS. When a rate is made (and somebody has to make rates, of course: we recognize that) for a certain steamer between certain ports, on a certain cargo, would there be any discrimination against another steamer of the same grade?

Mr. MCGEE. The question of moral hazard would bring about such a discrimination. Take two steamers of identical construction, perhaps built in the same yard in the same year. One managed by a

very careful, competent owner would unquestionably get a lower rate of premium than a similar steamer that was in the hands of somebody who was less experienced and somebody with a less profitable record from the underwriter's point of view.

Mr. EDMONDS. Does that follow with the officers and crew, too?

Mr. MCGEE. I do not think we follow that quite so closely as that, but, of course, that would all come under the term of management. A well managed steamship line with a good record will always get a lower rate of premium than a badly managed line with a bad record.

Mr. EDMONDS. Is there a material difference between the rates?

Mr. MCGEE. Yes; it is sometimes very sharp.

Mr. EDMONDS. I think that is probably good business, too, so long as there is no discrimination in it.

Mr. MCGEE. There is no discrimination. It is done on the record, on results.

Mr. EDMONDS. And it is noted, I presume, by you, between yourselves, as being a poorly managed arrangement, or something like that?

Mr. MCGEE. Well, I think the losses which any one of us would sustain would very quuckly draw our attention to a badly managed line.

Mr. EDMONDS. Then do you have that badly managed line go to some fellow in London who is not conversant with the bad management and let him take the risk?

Mr. MCGEE. Yes. If somebody else is not aware of its being a badly managed line, and is willing to write it on the basis of a first-class line, we let him have it.

Mr. EDMONDS. Even if he is a good friend?

Mr. MCGEE. Well, if he was a close pal, we might whisper in his ear that our experience was bad with that fleet. But the disagreeable feature of that is, you know, that when you give advice of that kind, sometimes the record changes during that year. So it is not a safe thing even to advise your best friends.

Mr. EDMONDS. He might come back and say you were trying to play a game on him?

Mr. MCGEE. Exactly.

Mr. CHINDBLOM. Is there any exchange of views between the underwriters of marine insurance as to the character and record of risks?

Mr. MCGEE. No.

Mr. CHINDBLOM. Anything of a permanent, usual, or customary character?

Mr. MCGEE. No.

Mr. CHINDBLOM. It is every man for himself?

Mr. MCGEE. Every man for himself. That is the unfortunate feature, and it is the one disability and perhaps the one vice of the marine insurance business—that we, each one of us, keep our own records and keep our own counsel and underwrite along our own individual lines.

Mr. CHINDBLOM. Were this burlap arrangement and this cotton arrangement intended to obviate or help that kind of a situation?

Mr. MCGEE. Those arrangements were intended as reinsurance facilities. Of course, both of them, through their interchange in

those things, have tended to stabilize the rates and conditions; they have tended to cut out abuses.

Mr. CHINDBLOM. And besides discussing and agreeing upon rates, you would have some exchange of views on these other subjects, in those organizations?

Mr. MCGEE. No. Perhaps I do not clearly understand your question. There is very little interchange of views with regard to individual accounts or individual shippers, or anything of that kind—very, very little. In fact, it is almost none. There we deal with the questions of hazards; questions of principles.

Mr. CHINDBLOM. How could you fix rates there without taking in the moral hazard?

Mr. MCGEE. On cotton or burlaps?

Mr. CHINDBLOM. Yes.

Mr. MCGEE. Because the question of moral hazard does not come into play in quite the same way that it does in the hull; that is, it is not so easily identified. In cotton insurance the question of moral hazard does come in through the medium of what is termed country damage, and the remedy is applied there by making a return to that merchant whose country damage claims are nominal as compared with the merchant whose country damage claims are heavy.

Mr. CHINDBLOM. How do you make that return?

Mr. MCGEE. It is measured by the amount of the country damage claims that he has made; or rather put it in another way, that if the country damage claims on a policy do not exceed a certain percentage of the premium income or the rate—the premium income as expressed by a rate; I will make that clearer in a moment—then they return to him the difference between that rate and what his country damages have been.

Mr. CHINDBLOM. That is a kind of rebate?

Mr. MCGEE. No; it is a return. It is a reward of merit. If the country damage claims on an account do not exceed, say, one-sixteenth of 1 per cent of the rate of premium—it is a little involved; it is difficult to express it clearly, but if you take the country damage claims and apply them to the amount insured, and if the factor then arrived at does not exceed one-sixteenth of 1 per cent, then the difference between that one-sixteenth and the rate which has been charged to cover country damage—a special rate is added to the general rate for covering the country-damage hazard; if that rate is not used up or exceeded——

Mr. CHINDBLOM. Then you return it?

Mr. MCGEE. Then we return it.

Mr. CHINDBLOM. If it is exceeded, do you make an additional charge?

Mr. MCGEE. No; we do not. We take it as a loss.

Mr. CHINDBLOM. You reward good conduct, but you do not punish bad conduct?

Mr. MCGEE. We punish him next year by charging him more for it, when we can. But competitive conditions do not always permit it.

Mr. EDMONDS. Suppose I were an insurance broker, Mr. McGee, and I had a good personal friend that was in the burlap business; he was going to ship burlap somewhere or other, and he had a ship

with $600,000 worth on it, and he was perfectly willing to pay me the regular rate. Where could I get that rate?

Mr. McGee. I should say you could get it with any insurance company that transacted a burlap business. There are some companies that will not write burlaps.

Mr. Edmonds. That is true; but how could I get a rate made?

Mr. McGee. Go to any insurance company. Any insurance company would quote you a rate.

Mr. Edmonds. Even if they are not in this reinsurance?

Mr. McGee. Certainly.

Mr. Edmonds. Would the rates vary?

Mr. McGee. That would depend entirely upon the individual company. If you went to a company that was in the reinsurance agreement, the probability is that they would quote you the same rate that they have got to pay for the reinsurance. On the other hand, that company may not have much of any burlap business, and in order to establish a position for itself they may be willing to say, "Well, I will take your business for less than the other fellows are charging."

Mr. Edmonds. That would be an unfortunate thing for them, would it not?

Mr. McGee. No: not necessarily. They could equalize it. You get a good fine pencil and a nice pad of paper and you can work it out.

Mr. Edmonds. Then a man in the brokerage business, handling a line like that, could go shopping around?

Mr. McGee. There is nothing to stop him to-day from shopping in the burlap business from one company to another, and he would unquestionably find quite a number of companies that are quite outside of the burlap reinsurance. In my own office, only one of the companies is in the burlap reinsurance arrangement. That company is in it because it has burlap business in large volume and needs reinsurance, and none of the other companies in our office participate in any way. We are quite willing to take it.

Mr. Chindblom. Those other companies will take burlap business?

Mr. McGee. Certainly.

Mr. Edmonds. How do these companies keep posted on what rate to ask on general merchandise and so on? If a man goes into the marine insurance business, where does he get his figures? Does he have to sit around and guess, or find it out by experience, or is there some other method?

Mr. McGee. It is entirely a question of experience. There is nothing that you can turn to and determine it: nothing in the nature of a catalogue. If you do not know what is the correct rate for a risk, you have either got to take what the broker offers to you, or make a guess at it, or, as we all of us do to some extent sometimes, when we encounter something new we will look wise and tell them to please call to-morrow, and we will try to find out in the meantime.

Mr. Edmonds. Where do you find out?

Mr. McGee. Well, you know there are tricks in all trades, and sometimes if we meet a situation of that kind we will just make out a reinsurance application for some dummy risk, and go to our next-door neighbor or competitor and say, "What will you reinsure me for?" The company that you have offered the reinsurance will perhaps give you the information you need. That is one way; but of course that

is infrequent. The ordinary way in which business is done, an underwriter must take it or leave it.

The broker almost invariably puts down on his application the rate of premium at which he is offering that risk. The broker may put down the rate he knows other business is done at; or he may by some analogy conclude that because cotton pays one rate burlaps ought to pay the same thing, if it were on the same voyage; and so he will put down that rate. It is the underwriter's duty to know whether what the broker is offering him is the correct rate, and, if not, to make it correct.

Mr. EDMONDS. The underwriter is the representative of the insurance company?

Mr. MCGEE. The underwriter is the representative of the insurance company.

Mr. EDMONDS. Your firm is an underwriter?

Mr. MCGEE. We are underwriters. We are not brokers at all.

Mr. EDMONDS. How do you educate an underwriter? How does a man get all this knowledge? Do you run an apprentice system in the business?

Mr. MCGEE. Every established office has two or three understudies to the underwriter. They generally divide up the work and delegate it, and let the understudy begin with the easy jobs, and he grows up; and it takes a long time to train him.

Mr. CHINDBLOM. Do you call the rate maker the underwriter, in your office?

Mr. MCGEE. Yes, sir. The underwriter is the man who commonly accepts the risk. The word "underwriter" arises out of the early condition or manner in which marine insurance was transacted. Back in the seventeenth century, when Edward Lloyd conducted his coffeehouse in London, he had a blackboard. A shipper of cargo or an owner of a ship who was about to perform a voyage would come in and write at the top of the blackboard what amount of insurance he wanted, the name of the ship, what he wanted his insurance upon, and where the ship was going to. Those who frequented that coffeehouse came along and put down, underneath, how much they would take on that and at what rate; and in that way those men who put their names beneath the description of the risk became termed "underwriters." That is the origin of the word. So, with that explanation, I think you can see what I mean when I say an underwriter. The man who takes the risk is commonly termed an underwriter.

Mr. CHINDBLOM. He does not necessarily fix the rate, then?

Mr. MCGEE. He either takes what the broker offers, or else he fixes the rate at which our office would take it—at which the company for whom he is underwriting would take it.

Mr. CHINDBLOM. Of course, in your case the company is the real underwriter?

Mr. MCGEE. The company is the real underwriter.

Mr. CHINDBLOM. But I am trying to find out whether you have a name for the particular man in the company who fixes the rate—who finally accepts and determines the rate.

Mr. MCGEE. He is called the underwriter.

Mr. EDMONDS. That is, the man in your office is the underwriter?

Mr. MCGEE. The man in our office.

Mr. CHINDBLOM. You represent a number of companies: how many?

Mr. MCGEE. Twelve.

Mr. CHINDBLOM. How many underwriters have you in your office?

Mr. MCGEE. We have about four; one chief underwriter and three or four deputies.

Mr. CHINDBLOM. The chief passes upon the work of the deputies?

Mr. MCGEE. Yes.

Mr. CHINDBLOM. He is the supreme head?

Mr. MCGEE. He is the chief underwriter.

Mr. CHINDBLOM. So that he fixes the rate for all your companies?

Mr. MCGEE. Yes.

Mr. EDMONDS. Of course he is supposed to keep posted on the state of the market?

Mr. MCGEE. To keep posted on the state of the market.

Mr. EDMONDS. And also to keep in touch with the insurance companies that eventually take the risk?

Mr. MCGEE. Yes.

Mr. EDMONDS. And these insurance companies no doubt collaborate together in order to have some sort of basis for an established rate?

Mr. MCGEE. There is very little of that; virtually none. That is the unfortunate feature of the marine insurance business to-day. There is no conference between the companies on the very important lines of business.

Mr. EDMONDS. Is that true of England and America both?

Mr. MCGEE. There is more conference in England than there is here. There is virtually none here, and that is the reason why you can place a 1 per cent risk to-day in New York for 15 cents. There is no conference; there is nobody to guide you, and in the very condition of affairs the new underwriters to-day would resent any suggestion from the more experienced ones. Their answer would be, "That is all right; you want me to name a rate on the risk which will keep it in your office. I am going to name my own rate."

Mr. EDMONDS. I understood Mr. Rush this morning to say that there was some arrangement or understanding between the offices—not a positive understanding, but a kind of general talk, perhaps, between each other—so as to establish some kind of a basis for insurance, anyway.

Mr. MCGEE. There might be on one or two directions, such as cotton or burlaps, but outside of that there are none—excepting this, that there are quite a number of us that are quite friendly, quite intimate; we frequently meet together at luncheon and might in a casual way——

Mr. EDMONDS. I knew there was a luncheon coming somewhere. Now I have got it.

Mr. MCGEE. Each man pays for his own. There are no such luncheons. There are two or three clubs down town where all of us go more or less. These are very innocuous. We might, in a casual way, and in an absolutely casual way, mention that such-and-such business had been offered this morning.

Mr. EDMONDS. It would be my presumption that men in the same line of business would naturally consult more or less. Certainly

Mr. Rush in his company and Mr. Chubb in his company would not want to be running around the market, one writing at 7 per cent and the other at 3. Certainly they have got to consult with each other to have, anyway, some evenness of rate.

Mr. McGee. I am inclined to think that you have picked out the two men who do less consulting with anybody else, and who depend more exclusively upon their own judgment, than any other two men you could have picked out.

Mr. Edmonds. Yes; that is true. I picked out the "kings" because their nams were first on my memorandum; but I can understand that it would be the most natural thing in the world to do, because a man would have no basis at all to do business on unless he did consult with others in the same line of business.

Mr. McGee. The thought I wanted to make quite clear was just this: There is nothing in the nature of any set conferring as to rates and conditions.

Mr. Edmonds. I think we are agreed on that. It is a recommendation——

Mr. McGee. No; not even that. In nine hundred and ninety cases out of a thousand, in naming a rate, or accepting or declining a risk of any character, I would not have the slightest idea as to what rate my competitors were writing it at. There is no conference of any kind.

Mr. Edmonds. What would happen if you wrote it too low?

Mr. McGee. If it was an account of Mr. Rush's, and I took it at what he considered too low a rate, he would probably make some unkind remark to me the next time he saw me on the street, and say, "Well, I am going to get one of yours in place of it."

Mr. Edmonds. But if you took it at too low a rate, would you be able to place it with your company?

Mr. McGee. Oh, yes. The fact that I take it settles that question. On the other hand, if Mr. Rush was to take one of mine, I might make the same kind of unkind remark.

Mr. Chindbloom. Suppose that you get an application for a large risk, too large for one company to carry, and you are not going to reinsure all of it in the companies in your office, would you not call up the representatives of other companies before you decided to underwrite that risk, to find out at what rate you could reinsure?

Mr. McGee. No. If a risk were offered, as such, we would only take that part of the total line that we wanted to carry in our own office. The element of reinsurance generally only comes into play when we find that we have, through various accumulations and through various acceptances, taken more on a single steamer than we ought to have. All of the insurance companies have agents all over the country, and a great deal of business which comes to an insurance company in New York originates with agents in Buffalo, Chicago, Detroit, Cleveland, Omaha, Kansas City, or New Orleans. On a great many of those shipments, when they are bound by the agents in the local towns, all that the shipper knows is that he is shipping it on such-and-such a railroad and it is destined for such-and-such a steamship line. Now, when that shipment gets to the seaport and is loaded on board the steamer, it only then develops what steamer

it is going on. We may have shipments which have been bound up in a dozen different places in the country congested on a single steamer, and we find ourselves with 5 or 6 or 10 or 20 times our net retention. Then we are forced frequently to go out and seek reinsurance; and that is where the element of reinsurance comes in.

Mr. CHINDBLOM. And then you are at the mercy of your competitors?

Mr. MCGEE. Then we are at the mercy of our competitors, and sometimes they are very unkind.

Mr. EDMONDS. They are mostly kind, though, I guess.

Mr. MCGEE. Not very.

Mr. EDMONDS. Many of the associations have told us that they recommend rates. They informed the committee that. So I presume that there is a kind of general understanding.

Mr. MCGEE. On a very limited number of lines of business; very limited.

Mr. EDMONDS. I think there were probably eight or nine associations that told us they recommended rates. As a matter of fact, we have the prices or rates of some of the associations.

Mr. MCGEE. The only price lists that I know of—I think there are only three that I can recall—are the New England Hull Underwriters' Association, the Provincial Hull Underwriters' Association, and the Atlantic Inland. Those three lines deal with lines of business which are notoriously unprofitable, and on which the markets were falling down to such a point that the assured could not get sufficient insurance, and the conduct of those associations was really more for the benefit of the merchant and the shipowner than it was for the benefit of the underwriter. Of course, the underwriter looks out for himself.

Mr. CHINDBLOM. Those are associations of shipowners, are they?

Mr. MCGEE. No; of underwriters.

Mr. THACHER. May I suggest, Mr. Chairman, that you give Mr. McGee the names of the associations you have in mind? Then you could at once get a line on whether they are important or trivial.

Mr. EDMONDS. There are those small New England associations. I have here, "Lumber agreement on Great Lakes; joint grain certificates."

Mr. MCGEE. Joint grain certificates? I do not think that is a rate-making organization.

Mr. EDMONDS. It is a rate-making agreement?

Mr. MCGEE. No; I think not. I think the joint certificates mean this: That different shippers have taken out insurance, each with its own set of underwriters, and that those underwriters have agreed to issue one single document instead of each one issuing its own definite insurance certificate. I do not understand that there is any rate agreement there.

Mr. EDMONDS. The rates generally are very even on that lake business?

Mr. MCGEE. Yes.

Mr. EDMONDS. There is very little difference between rates, and very little speculation in them?

Mr. MCGEE. The rates remain about the same, but I think they have a question of discounts and allowances which have a considerable effect on the rate.

Mr. CHINDBLOM. That reminds me, Mr. Chairman, with reference to the burlap agreement. Is there a joint or common certificate of insurance used there?

Mr. MCGEE. No, sir. Each company issues its own policy without relation to anybody else.

Mr. EDMONDS. Subject to the agreement? When he does issue the policy, it is subject to the agreement?

Mr. MCGEE. I think the great bulk of the burlap policies were issued long before there was any agreement.

Mr. EDMONDS. No; I meant subject to the reinsurance——

Mr. MCGEE. Subject to the division by reinsurance; yes.

Mr. EDMONDS. That, of course, saves a good deal of bookkeeping?

Mr. MCGEE. It makes more bookkeeping.

Mr. EDMONDS. At the end of the month it does; but really it saves you a good deal of trouble in corresponding back and forth every time you take a policy?

Mr. MCGEE. Of course we do not take policies every day in the burlap business.

Mr. EDMONDS. If I were in the burlap pool, and I had taken an insurance policy for $600,000 on some burlap, automatically it becomes a part of the burlap reinsurance agreement?

Mr. MCGEE. Yes; but the burlap policies are not issued for each separate insurance or each separate shipment. The burlap importers make a contract with their insurance company for the coverage of all of their importations, so that a policy issued by an insurance company for a burlap importer might have been issued 5 or 6 or 10 years ago. It is a running contract.

Mr. EDMONDS. But does not the rate change on those from time to time?

Mr. MCGEE. It depends entirely upon the class of steamer, and they do fluctuate somewhat.

Mr. EDMONDS. It is a matter of adjustment, is it not?

Mr. MCGEE. It is a matter of adjustment.

Mr. EDMONDS. The Provincial Underwriters Association—that is one of those small ones in New England?

Mr. MCGEE. Yes.

Mr. EDMONDS. The American Schooners Association—that is the same thing?

Mr. MCGEE. That is the same thing.

Mr. EDMONDS. Cotton Marine Insurance?

Mr. MCGEE. That, of course, is an important thing.

Mr. EDMONDS. They state they have rates. How about the Utah association?

Mr. MCGEE. I did not know that was still alive.

Mr. EDMONDS. They have some friends here, have they not, from their questionnaires?

Mr. MCGEE. Apparently they have, but I did not know that any of those Utahs were left for insurance purposes.

Mr. EDMONDS. What is the Atlantic Inland Association?

Mr. MCGEE. That is an association of companies which write what might be termed river and harbor business—barges, canal boats, tugboats, and scows.

Mr. EDMONDS. Does it cover the whole Atlantic coast?

Mr. McGee. Practically so. That was a business which had gotten down to such a point that the owners could not get sufficient insurance, on account of the bad record of the business.

Mr. Edmonds. Does this association act the same as the cotton, the burlap, and all those?

Mr. McGee. I do not know.

Mr. Edmonds. I do not believe it does.

Mr. McGee. I am not familiar with the Atlantic Inland Association at all.

Mr. Edmonds. I presume it is to cure the evils that exist in the barge business.

Now, on the hull business on the Great Lakes, in these steel freighters up there, the insurance is all rated at the same value per ton and at the same rate, whether they are old or new ships, is it not?

Mr. McGee. Substantially so; yes.

Mr. Edmonds. Why is that? Do they make an average on it?

Mr. McGee. No. The hull situation on the Lakes is a little bit peculiar. For a great many years a very large part of the lake insurance was placed in foreign companies. The rates were erratic; there was a great deal of competition and conditions were bad. The lake shipowners got together and formed what was known as the Great Lakes Protective Association, which is an association of shipowners. There were several objects in it. One of them was the question of governing their captains. Another thing was, I suppose, to prevent competition between themselves in the employment of masters. However, that part of it I do not know much about. But year by year they extended their activities, so that it came to marking out safe channels, the enforcement of regulations for laying up vessels, the punishment of masters for incurring disaster, so as to keep masters from having accidents. Then in the course of time they took up the question of insurance, because they were paying differing rates, and apparently they came to the conclusion that by massing their business all into one set of hands they could dictate better terms to the insurance companies. The Great Lakes Protective Association then began assuming—something like a mutual insurance company—a part of the insured value of the vessels owned by members of that association. I believe that the first year, and perhaps the first two or three years in which the Great Lakes Protective Association was in existence, the association assumed 5 per cent of the value and carried it as they would a mutual insurance company.

They afterwards extended it to something like 25 per cent. After it had been in force for several years they had acquired an experience, and then the Great Lakes Association set down for their own business a form of policy which they would grant to their members, and they fixed the value per ton at which they would insure the hulls and they fixed the rate of premium—the initial deposit rate of premium perhaps you might call it. Then the stock insurance companies were met with the condition that they must do the same thing. So the fact that there is a uniformity in policy, in rates, and in conditions and privileges and prohibitions arises entirely from the fact that the stock companies are following what is set down by the Great Lakes Protective Association.

Mr. Edmonds. Does that cover hulls?

Mr. McGee. That is for hulls.

Mr. Edmonds. Do we carry in our own companies most of that insurance?

Mr. McGee. Yes, sir: I think the great bulk of that is placed in American companies, or placed in the American market, which, of course, would include admitted foreign companies as well as native companies.

Mr. Edmonds. What is the reason that so much of this insurance goes to companies that are not admitted companies?

Mr. McGee. It is entirely a question of rate; almost entirely. So much of the cotton business, for instance, and burlap business goes to foreign companies because the ownership of the cotton is vested in people who are nonresident in the United States.

Mr. Edmonds. But ought not all companies that do business here to be admitted companies? Of course, that brings up the question, I suppose, right away, what are you going to do with an international company.

Mr. McGee. Exactly. If an insurance company that has its office in London will not come into the United States to get business and will get all the business it can in London, you can not make them come here.

Mr. Edmonds. No; I suppose that is true.

Mr. McGee. If he is determined to be an outsider, he is going to be an outsider.

Mr. Edmonds. What do you know about that gold situation during the war, in connection with the South American shipment transacted by the New York banks?

Mr. McGee. I know there was a great deal of talk about it. I know that we wrote considerable of it in our companies.

Mr. Edmonds. You wrote it in your companies for foreign companies?

Mr. McGee. No; we wrote it for American bankers.

Mr. Edmonds. You wrote it for American bankers, but you wrote for foreign companies?

Mr. McGee. No; we wrote for domestic companies. We have no foreign companies.

Mr. Edmonds. And you insured that gold going to South America in your domestic companies?

Mr. McGee. In our domestic companies. There was a period of time when war conditions were exceedingly dangerous and when the British Government was seizing things right and left. We wanted to be well paid for any risk that we took.

Mr. Edmonds. That situation, as I understand at this time, was that the English Government refused to allow any gold to be insured for export and import unless it went from England. Is that true?

Mr. McGee. I have heard rumors to that effect. I have seen that in the public prints; that is about all I know of it. The gold which was going to South America was supposed to have a German taint; it was going to South America for the purpose of either discharging German obligations there or else finding its way to Germany.

Mr. Edmonds. The statement made to me was that the British Government forbade English insurance companies to write any gold excepting to or from England.

Mr. McGee. I have heard that that was so.

Mr. Edmonds. Following the action of the English Government, certain large underwriters in this country refused to write gold; is that true?

Mr. McGee. I think that is true; the reason for it being that if the shipments were made they felt pretty sure that the British Government would adopt means to seize the vessels and take the gold, which, of course, would result in a total loss to the underwriters.

Mr. Edmonds. Then you nobly rushed to the rescue with your American companies and you insured it, and the British Government did nothing of the kind?

Mr. McGee. We did it when we thought there was little or no danger of the British Government doing it. We did not do it at the height of the danger point.

Mr. Thacher. Between what points was this? That is new to me.

Mr. McGee. From New York to Buenos Aires.

(After informal discussion off the record:)

Mr. McGee. The attitude of the American insurance companies, of course, would be measured by this condition, too: The big bankers had placed all that gold insurance with the British insurance companies, purely on the question of rate. When the British insurance companies would not insure them, they came to the Americans. My own attitude toward the risks when they were offered to me was this: "Oh, yes; when everything was lovely you went somewhere else. Now that it is a hard and difficult and dangerous risk, and your own underwriters won't take it, you come to me."

Mr. Edmonds. "So we will put the rate up 3 per cent."

Mr. McGee. "You will pay me my rate or I won't help."

Mr. Edmonds. I do not blame you.

Mr. McGee. I believe that was the general attitude toward that business.

Mr. Edmonds. There were two or three underwriters that made a practice in this country of writing gold.

Mr. McGee. And writing it extremely cheap.

Mr. Edmonds. Yes; and they, at the time when the English Government promulgated this decree, fell down and refused to write gold for our shipments; and it was just at the time when we were endeavoring to establish banks and to open up our South American trade.

Mr. McGee. And those same banks, when they got over that, went right back to where they were before.

Mr. Edmonds. I want to go a little bit into the brokerage business. They tell me you know all about the brokerage business.

Mr. McGee. Brokers or brokerage?

Mr. Edmonds. Insurance brokers.

Mr. McGee. Brokers; yes, sir.

Mr. Edmonds. Do you know of any arrangement or agreement between brokerage concerns and foreign insurance agents?

Mr. McGee. I known of none. I do know that there are some brokerage firms in New York who apparently are also agents of some foreign insurance companies.

Mr. Edmonds. There are brokers in New York that are agents of foreign insurance companies, but are there brokers in New York who also have an agency in London or an agreement with London houses?

Mr. McGee. Oh, yes; practically all the large brokerage houses in New York and Philadelphia have correspondents in London. In some cases those foreign connections are virtually branch houses.

Mr. Edmonds. Are they under any agreement to give those houses certain lines of business or certain amounts of business?

Mr. McGee. I do not know of any, but I should suspect that it would be a very natural sort of thing.

Mr. Edmonds. They do not, of course, come to you at all except for business that they are going to place here?

Mr. McGee. Except for business that they are going to place here.

Mr. Edmonds. Business that they eventually intend to put through their London office they do by cable, or something of that sort?

Mr. McGee. Yes; they do it by cable.

Mr. Edmonds. Do you want to name any of those concerns?

Mr. McGee. I should say they all do it.

Mr. Edmonds. Does Wilcox, Peck & Hughes have a London office?

Mr. McGee. They have a London correspondent. I do not know just how close the tie is.

Mr. Edmonds. Mather & Co.?

Mr. McGee. He has two or three correspondents in London.

Mr. Edmonds. He has no office of his own?

Mr. McGee. Not that I know of; not under his own name.

Mr. Edmonds. Johnson & Higgins?

Mr. McGee. Johnson & Higgins have correspondents in London; yes.

Mr. Edmonds. And Hall & Co.?

Mr. McGee. Frank B. Hall & Co., I believe, have their own house there—C. P. Stewart & Co.

Mr. Edmonds. What is the nature of these agreements; have you any idea?

Mr. McGee. No; I have no idea whatever.

Mr. Edmonds. I presume they are simply a business partnership arrangement between the two, or something of that kind?

Mr. McGee. Something of that kind; and I think very frequently it is nothing more than a mere arrangement to correspond and exchange business, offer one another business to be placed.

Mr. Edmonds. Do you suppose they have arrangements by which they divide the business up, half over there and half here?

Mr. McGee. I have no idea whatever.

Mr. Edmonds. Would that be a natural thing for them to do?

Mr. McGee. That would be a very natural thing, and I suspect that it exists, but I have no knowledge of it.

Mr. Edmonds. Are these brokers working on their own capital?

Mr. McGee. Surely.

Mr. Edmonds. Are any of them financed by the insurance companies?

Mr. McGee. I should not think so. I should very seriously doubt it. You see, the broker is a free lance, and so far as the insurance company is concerned the broker's hand is against the insurance company. He is out to get the best of any insurer that he can. He is employed by the assured—the shipowner or the merchant.

Mr. Edmonds. That is true on the face of things, but underneath are there not officers in insurance companies who are interested in brokerage houses?

Mr. McGee. I do not know of any, excepting in one case.

Mr. Edmonds. Naturally they would not advertise it.

Mr. McGee. Well, there are two cases, perhaps, that I know of. Mr. Stewart is connected with the American Merchant Marine Insurance Co., and the directors of Wilcox, Peck & Hughes are connected with the Maritime Underwriting Agency, which underwrite for a group of foreign companies.

Mr. Edmonds. They are developments made probably since these men went into business?

Mr. McGee. Yes; I think it is an outgrowth of it.

Mr. Edmonds. An outgrowth of the business, but is it a customary thing, or do you know whether it is done, for an officer of an insurance company to start up a new man in the brokerage business and capitalize him?

Mr. McGee. I never heard of it.

Mr. Edmonds. Or for the company itself to do it?

Mr. McGee. I never heard of it; not in the brokerage business.

Mr. Edmonds. Have any of the foreign companies ever backed up insurance brokers of that kind?

Mr. McGee. The companies not admitted to the country, what we call nonadmitted companies, I think very often do give brokers carte blanche to get business. Very often British underwriters will give to British insurance brokers facilities or commitments of some kind whereby those British insurance brokers will come over here and solicit business. A great part of the sugar business was taken out of American market 8 or 10 years ago by just such means. But that was a foreign insurance broker, not an American.

Mr. Edmonds. Have you folks given any particular consideration to this export insurance? You heard me explain what we mean by export insurance; I do not know whether you call it that or not.

Mr. McGee. Yes, sir.

Mr. Edmonds. Insurance that is taken out of the country and placed outside the country to evade the tax?

Mr. McGee. I understand.

Mr. Edmonds. Have you given any consideration to whether there would be any method by which that could be prevented?

Mr. McGee. Some of us have given a great deal of thought to it; I expect all of us have given a great deal of thought to it. There have been different opinions expressed, but I do not think there is anything that can reach it that has yet been suggested; because, as Mr. Rush pointed out this morning, there is no means of compelling any merchant or owner of either a ship or goods to take out insurance at all. In the next place, he is a perfectly free agent, and even by the laws of some of the States he is excluded from the operation of laws which are intended to keep insurance within the State. And even if that were not so, it is so easy to make terms of sale which would take the power to place insurance out of the hands of the American citizen or American resident. So there are so many loopholes that we know of, and so many that we can conceive of whereby any such law could be violated, that we do not see how any remedy could be applied.

Mr. Edmonds. And yet it is very unfair to a man doing a legitimate business?

Mr. McGee. It is absolutely unfair. It is unfair that an American insurance company that is paying taxes to the city and the State and to the Federal Government should see the business of its own valued friends being send to foreign countries, where it can be placed at lower rates of premium than the American insurance company can afford to write it. Yet it is a condition which I think will apply to any foreign commerce, whether it be the buying or selling of goods, or the buying or selling of freight space, or the buying or selling of insurance.

Mr. Edmonds. You experts ought to be able to get some cure for that. We want to keep it with you.

Mr. McGee. We want to have it kept there.

Mr. Edmonds. But here you come and discourage us right away. We are looking for a remedy, and we know that you know all about the business.

Mr. McGee. We can conceive of no remedy, ourselves, that would be successful. We did think—we did hope that the placing of a tax such as was laid by the income-tax laws might do a good deal to discourage it; I mean the regulation that foreign insurance must pay a 3 per cent tax, equivalent to the stamp tax. But then the Supreme Court of the United States says that it is unlawful to tax exports, which immediately takes away from us the defense that we need and the business that we want the most.

Mr. Edmonds. Do we want it bad enough to prohibit the export of it? During the war we have been learning things, you know. If we did not want anything to go out of the country, we stopped it.

Mr. McGee. Yes.

Mr. Edmonds. Would that be healthy for the business?

Mr. McGee. It would and it would not. But, assuming that it would be healthy, supposing that legislation was passed to prevent the exporting of insurance to foreign countries. That would reach the insurance broker, perhaps, in cabling his orders; but the insurance broker would only have to turn around and say to the shipowner, "Well, now, we may not do that, but if you will write a letter to our London house they can do it for you," and your law does not reach that. Or the shipowner may write to his London branch and say, "You will place the insurance through the correspondents of our New York brokerage friends in London." That is not exporting; you can not reach that; you can not stop it.

Mr. Edmonds. It seems to me there might be some way gotten at to reach that. I would like to see it reached.

Mr. McGee. Of course any law that was passed would reach a certain measure of it; there would be some of the fish that would be caught in the net. But the wiser fish would avoid the net.

Mr. Edmonds. Yes; you would reach some, of course, but they would find a way of overcoming it, I presume, unless you could absolutely cause something to turn it this way. I imagine, too, that if you did that a good many of the foreign companies would come over here and establish branches of some kind and pay our taxes. That would help considerably.

Mr. McGee. That would help some, but I do not care how many companies are in this market you still will have brokers sending their business to foreign markets as a check on this. The broker

claims that he is driven to it by competitive conditions. Broker A says, "If I don't try all the insurance markets of the world for the insurance of this fleet of steamers, then my competitor may go to those markets and beat me out. He may find a market which I haven't sought out, and he may find conditions which will enable him to beat me out on that business and take it away from me bodily. Therefore I, broker A, am forced to try all of the markets of the world." That is the broker's defense to it.

Mr. EDMONDS. I suppose to a certain extent that is valid, too.

Mr. MCGEE. It is a good, valid reason.

Mr. EDMONDS. I understand that your law in New York was amended so that rebates could be given on brokerage in marine insurance. Is that right?

Mr. MCGEE. I do not think it is correct.

Mr. EDMONDS. We were informed that there was an amendment made to the New York law that prevented the cutting of the commissions.

Mr. MCGEE. I think that what is meant by that is this: We had a very rotten condition in New York during the war period, when a large number of fly-by-night insurance brokers came into the business. That is to say, they were not insurance brokers at all. They were people who were wholly unfamiliar with marine insurance, but who set up as insurance brokers and solicited business from merchants and then went around amongst the insurance companies to place it. Those people, a great many of them, took out illegal insurances—that is, they took out insurances which were not legal insurances, because there was no insurable interest behind them. They traded in those insurances and bought and sold them as they would merchandise. There was an investigation by the insurance department of the State of New York, which uncovered these practices. Legislation was passed by the State which aimed at stopping rebates, which might be called an antirebate law, and I think it was so with this exception: It provided that an insurance broker who was appointed an insurance manager of a large corporation might act as such under annual salary, or a broker might contract with a large assured on a fixed-sum basis. Those were left legal. Of course that is not the language of the law, but that is the effect of it.

Mr. EDMONDS. In other words, a broker would go to a fleet office and accept a salary and rebate the percentage that he gets to the company?

Mr. MCGEE. Yes; or he might contract for it. The reason for that is that a great many of the large trusts and organizations which have insurances to tremendous values frequently appoint an insurance manager, and that insurance manager is frequently an insurance broker, or he may be connected with an insurance brokerage house and acting in his individual capacity; but some of them, I believe, are on a salary basis. "We will attend to your insurance for a salary of so much per annum, returning to you all the commissions and brokerages which we get." Or, as is sometimes done with the hull business, the insurance broker, instead of quoting a rate, may go to the shipowner and say, "I will place the insurance on your fleet for so many dollars," that number of dollars being the amount of premium which he has got to pay to the insurance companies, minus

as much of his brokerage as he feels inclined to allow or thinks it necessary to allow.

Mr. CHINDBLOM. In order to get the business?

Mr. MCGEE. In order to get the business. Another competitive broker may come along and do it for $25, $50, or $100, or $1,000, or $5,000 less. So the competition ceases to be one of rates and becomes one of dollars. Now, the law of New York State recognized those conditions by the exception which it made in the application of the anti-rebate law.

Mr. EDMONDS. Does not that open up the whole question of rebates in the marine business? Is it not wide open?

Mr. MCGEE. If you do it that way, yes; but, on the other hand, I think there is very little business that is really done in that way. It is only in the case of the huge trusts; for instance, an organization like the Standard Oil Co. I do not know what their arrangements are, but I take them for illustration in ignorance of any relationship they may have. The Standard Oil Co., for instance, has buildings and plants all over the country; they have vessels in all the various ports and harbors of the country. They may handle all of their insurance from one central point, appointing an insurance manager whose duty it is to look after that.

Mr. EDMONDS. Mr. Rush, does that obtain in Philadelphia?

Mr. RUSH. I do not think so, sir.

Mr. EDMONDS. Would not the natural drift of all insurance be to New York City under such an interpretation of the law as that?

Mr. RUSH. It would seem so; but I do not think so much on account of that law as on account of superior facilities of New York over all other States in the country. I agree with Mr. McGee, that I do not think it is generally done.

Mr. EDMONDS. How long will it be before it is done? The law does not limit it to big aggregations.

Mr. MCGEE. It could be done on a single ship, and possibly is done on a single ship; but that sort of thing could only be done where the values are large and the amount of premium is large, and correspondingly the amount of the brokerage is large.

Mr. EDMONDS. That would depend a very great deal on the man doing it. If he was a man who was living on $5,000 a year, if he could get 500 ships a year and get $10 out of a ship, he has got his living?

Mr. MCGEE. Yes.

Mr. EDMONDS. Now, you know as well as I do that there is many a man in New York who if he could see that before him would be very glad to do it. I presume you have not yet educated them up to that point. Do you approve of that kind of a law?

Mr. MCGEE. I do not.

Mr. EDMONDS. I think it is a great mistake, myself.

Mr. MCGEE. I do not approve of it, but it is what the insurance department evolved.

Mr. EDMONDS. I think they had better reevolve something else. I think that is a very poor proposition. We have all gone through this insurance-rebate proposition for years, and it is pretty near time we got down to some basis. I as very sorry to hear that that situation exists.

Mr. MCGEE. I am merely expressing what the law is.

Mr. EDMONDS. I want to ask you another thing: There is a loss on a ship. The broker represents the assured, and the broker gets the adjuster. The broker naturally is in favor of the assured; he picks the adjuster, and naturally the adjuster is in favor of the broker. Do you think that is a good condition of affairs?

Mr. MCGEE. No, sir.

Mr. EDMONDS. That is what is done, though?

Mr. MCGEE. It has been done for a great many years.

Mr. EDMONDS. Why is it done?

Mr. MCGEE. I am afraid I should have to answer that very much as the little girl answered the question, "Because it is." I do not think the broker fixes the adjuster. I think the situation is this, that all too frequently the broker is the adjuster. It is a bad situation; it is an unhealthy situation.

Mr. EDMONDS. Is that true of large losses?

Mr. MCGEE. Yes; in the United States. In England the broker and the adjuster are two separate persons. The adjuster in England is more like a lawyer.

Mr. EDMONDS. That is true of the fire insurance business here, too, is it not?

Mr. MCGEE. I do not know fire insurance; I would not want to presume to speak on that.

Mr. EDMONDS. Mr. Rush, is the claim adjuster separate from the broker?

Mr. RUSH. They have individual claim adjusters; almost all large fire companies have their own staff.

Mr. EDMONDS. What do you do in marine insurance?

Mr. RUSH. We have our own adjuster, too. It happens in a big, general, average case, a case where the adjuster is mostly employed, that the shipowner appoints him, and very frequently, as Mr. McGee says, the adjuster is a big insurance firm. Johnson & Higgins, for instance, started as average adjusters and then took up marine insurance brokerage and became bigger marine insurance brokers than they were average adjusters.

Mr. EDMONDS. Does not that lead to a bad condition of affairs?

Mr. RUSH. Not as bad as you would think, Mr. Chairman, because I think in a general average case it is a matter of law, and you can not get away from it. They adjust it in accordance with the law and the statute.

Mr. EDMONDS. Can an adjuster make it very lenient in some cases?

Mr. RUSH. Yes, sir.

Mr. MCGEE. The claim adjusters will very quickly pick it up and bring him to time.

The unpleasant feature about that situation is that as an adjuster the individual frequently gets knowledge of the business of other people which places his brokerage department in an advantageous position for soliciting the business of some other insurance company. It is unpleasant only because it puts the adjuster frequently in the position of getting information which is confidential and secret, which he uses for his own ends.

Mr. EDMONDS. Now, we have built up a large tonnage; we have got a very much enlarged business. Why don't you folks in the business get adjusters, the same as in fire insurance?

Mr. McGee. Because the adjusting of marine claims, general average particularly, is a profession itself. It is a branch of the legal profession. A good average adjuster must be a pretty high-grade lawyer. He may not practice common law, or the general run—I do not know just what phrase to use for that—but he is, after all, of lawyer caliber; professional caliber.

Mr. Edmonds. The insurance companies could get them just as easily as the brokerage offices.

Mr. McGee. Yes; but the adjuster comes in as a man who is acting between the shipowner and a large number of consignees. The adjuster has nothing to do with insurance at all. If the steamer *El Cid*, from New York to New Orleans, meets with a general average accident, when she arrives at New Orleans a statement of general average must be compiled, dividing the expenses, the general average expenses, over ship, freight, and cargo. Now, there may be hundreds of consignees of that cargo, and there is where the relationship of the average adjuster comes in. He is the man who sets forth what part of the loss which has been sustained is due from each one of the interests. He has no relationship whatever to insurance. Insurance comes in for the protection of the merchants or of the shipowner for the payment of the general average contribution which is due. A general average adjustment sometimes will consist of three or four bulky volumes.

Mr. Edmonds. Yes; I have seen some of them.

Mr. McGee. Now, it requires an expert to make them up. After the average adjuster has made up his adjustment, that adjustment comes before each one of the insurance companies, and the claims departments of the insurance companies pass upon that to the extent of that company's liability. We may have insured part of the hull; we may have insured a dozen or two of the consignees on that vessel. We pick out our own liability. It would be an extremely difficult thing and an extremely expensive thing for each insurance company to maintain a staff of average adjusters to compile a case of that kind; and we would still be subjected to the criticism of looking at it from an individual viewpoint.

Mr. Edmonds. Where would you get the adjuster in the case of the *El Cid?*

Mr. McGee. The owner of the ship would nominate one adjuster, who would make up the statement.

Mr. Edmonds. From the crew; from the officers?

Mr. McGee. Oh, no.

Mr. Edmonds. Where would he get a man to estimate that? At Habana, when he was there?

Mr. McGee. Oh, no; the owner of the ship would appoint some average adjuster in New York or some other big city to make up the statement. That average adjuster is a trained expert.

Mr. Edmonds. The report of damage would be made by the ship?

Mr. McGee. The shipowner would put the case in the hands of the average adjuster. The average adjuster would gather the information from the consignees of the cargo, from the shipowner himself, from the shippers of the cargo, from the crew, from the master, from every source; and he compiles the facts and distributes the loss.

Mr. EDMONDS. He is an expert in himself. Are these average adjusters in the brokers' offices generally?

Mr. MCGEE. In a number of cases; yes—departments of brokerage offices. There is no relationship between a broker and an average adjuster; it is merely that the firm which does one frequently does the other.

Mr. RUSH. Mr. Chairman, may I interrupt for one moment?

Mr. EDMONDS. Certainly.

Mr. RUSH. I used to be an average adjuster myself; I was a member of the Association of Average Adjusters of the United States and an associate member of the Association of Average Adjusters of Great Britain, and I want to clarify something that has not been brought out.

General average long antedates insurance. It antedates the birth of Christ; it is the oldest maritime law that is known. You must distinguish between general average adjustment, which involves the laws of the United States, England, France, and many other countries, and the ordinary settlement of an insurance claim. The average adjuster may do both, but he would barely exist were it not for the law of general average. If there is a general average case, the owner in the United States almost invariably goes to an expert, practiced adjuster, who may or may not have an insurance annex to his firm: but in the settlement of a partial average case, the mere simple damage to a bale of goods, he probably will not bother with going to an adjuster and paying his fee. The broker will make it up in his own office.

Mr. EDMONDS. Does that give the broker leeway to show favoritism to shippers?

Mr. RUSH. I think Mr. McGee's testimony covers the point accurately. It gives the insurance firm having an average adjusting department information which an insurance firm not having an average adjusting department would not get. I do not think the adjusters ever rebate their fee; they are too high class to do that.

Mr. EDMONDS. Do you ever question those claims?

Mr. RUSH. We always watch them very carefully to determine, first, whether they are correctly made up, and, secondly, whether the prices paid for labor and material are too high. We employ engineers and master mariners to do that very thing; and if we have a bill from Cramp's shipyard which we thing is too much for that sort of work we have our experts go over it and see where it is wrong.

Mr. EDMONDS. Of course, you do not see the goods that are damaged?

Mr. RUSH. We have our inspectors. There are some sworn appraisers; there are two appraising firms that are often employed by insurance companies to impartially inspect the damage on damaged goods that come into the United States. They are supposed to be accurate, and I think they are accurate and fair-minded.

Mr. EDMONDS. Of course, that put you on your guard all the time, and whatever kind of damage you get, you have to watch it?

Mr. RUSH. Yes.

There is another thing I should like to say. You asked Mr. McGee whether there was not some friendly meeting, at a lunch or somewhere, to make rates. Outside of these various little associations that

never happens. The way rates are made is on the individual experience of each individual company. The facts being the same, the deductions will probably be the same. I will make a rate on shipments of linens from Liverpool, or burlaps, to the United States. The Atlantic Mutual will make a rate; the Hartford will make a rate; and those rates will very closely approximate, because the same conditions apply to them. I remember one instance in which my company was engaged in insuring large values of wool from the east coast of South America to New York and Boston, amounting to many millions of dollars. Other insurance companies were doing the same thing.

These wool men in Boston would get together and compare their insurance rates to see whether any one of them was being stuck. They found out, over a period of years, taking myself and one of my leading competitors, that while our rates at times varied as much as half a per cent on a vessel, that on the total amount of insurance, equal amounts, we were not more than a couple of hundred dollars apart on the total premium. That was simply because the same statistics gave the same results to two entirely separate insurance companies who never said one word to each other about it.

Mr. EDMONDS. Do you furnish those statistics to each other?

Mr. RUSH. Certainly not.

Mr. EDMONDS. That is your stock in trade?

Mr. RUSH. That is our stock in trade. We keep them under lock and key.

Mr. Edmonds. Did you ever hear of a case where an adjuster, who was also a broker, took a line of insurance at cost, rebating all his commission, providing the adjusting would be done through his firm; and did he arrange afterwards to pay something for getting the insurance to the party, so that he could get the adjusting?

Mr. MCGEE. I have heard such stories; I do not know it to be a fact.

Mr. EDMONDS. How near true do you think they are?

Mr. MCGEE. I suspect they are pretty nearly right.

Mr. EDMONDS. You know the concern?

Mr. MCGEE. I know the gentleman; yes, sir.

Mr. EDMONDS. Did he make money on that deal?

Mr. MCGEE. If rumor was right, he had to work three or four years for nothing. In other words, he could not make good on his bit for the insurance.

Mr. EDMONDS. He certainly could supply the insurance, could he not?

Mr. MCGEE. Certainly; but not at the price which he expected to get.

Mr. EDMONDS. He could not afford to pay the bonus?

Mr. MCGEE. That is about right. Of course, that is the story. I am not vouching for the facts.

Mr. EDMONDS. It is a rather unusual circumstance for a man to do all that, is it not; or is the competition so stiff in the business that you have got to do that kind of thing?

Mr. MCGEE. No; that particular gentleman is a very resourceful gentleman, and sometimes he adopts queer expedients to accomplish his ends.

Mr. EDMONDS. Did his end come after working that way?

Mr. MCGEE. No. I believe he still has the business. Now he is making some money on it. In other words, he was dealing in futures.

Mr. EDMONDS. He was perfectly willing to work for a few years for nothing?

Mr. MCGEE. Yes.

Mr. EDMONDS. Do the companies ever give brokers excess commissions in order to induce them to divert business to them?

Mr. MCGEE. I believe that is done; I do not know that it is so. Of course there is no hard and fast rule as to the rate of brokerage. There is no law on the subject. The question of allowances for brokerage is very largely within the control of the individual underwriter. He may be willing to pay 10 per cent for a general line of business. If there is something particularly good that he would like to have, he may be willing to pay 15 per cent. On the other hand, he may know that the market is so congested that Mr. Broker must come to him anyhow, so he will say, "I will only take it for 5 per cent."

Mr. EDMONDS. Is there a brokerage commission in marine insurance as low as that?

Mr. MCGEE. In many lines I think it is. When I first came into the business the standard insurance brokerage was 5 per cent; then it was raised to $7\frac{1}{2}$.

Mr. EDMONDS. Fire insurance is better writing, is it not, for the broker?

Mr. MCGEE. No; because the fire insurance commission, while it is higher, is calculated on smaller units. The marine insurance broker is better off with a 10 per cent commission than a fire insurance broker would as a rule be with a 20 per cent commission. The premiums are larger, and then a great deal of marine insurance business is done automatically. Once the broker has done his work, it is something like a pension; it goes on for a long time without his doing much, if any, more work. It is purely detail; purely clerical.

Mr. CHINDBLOM. He gets his commission as long as the policy runs?

Mr. MCGEE. As long as that policy is in existence, which may be many years.

Mr. EDMONDS. Cutting commissions, I suppose, is another thing that is allowed by the freedom of the New York laws in connection with marine insurance?

Mr. MCGEE. Yes; of course there is no law in New York so far as fire insurance is concerned. If a fire insurance company is likely to pay only 10 per cent commission or brokerage, I do not understand there is any law which would make them pay 15.

Mr. EDMONDS. Is there not a kind of agreed insurance commission of 25 per cent on small business and 15 per cent on large?

Mr. MCGEE. I am not qualified to speak on that.

Mr. EDMONDS. It is regulated by the Fire Underwriters' Association; I thought some association regulated it.

Mr. MCGEE. The Fire Underwriters' Association may do it.

Mr. EDMONDS. Of course, that is not State law; it is simply an agreement. I do not think Mr. Thacher has got that shipment of gold. It was January, 1917; that was before the war.

Mr. CHINDBLOM. We went into the war April 17.

Mr. THACHER. You see the same point should receive consideration, because if they were what you might call "enemy destination," or any intent of that sort, it would be unlawful for one of our companies to cover, if not in law, it would be a perfectly good proof for a belligerent to seize it, which would increase the hazard of the risk.

Mr. EDMONDS. It was a shipment of gold by the National City Bank and the Mechanics' & Metals Bank to their branches in South America, was a perfectly legitimate shipment of gold, and it seemed to run into a good deal of trouble.

Mr. THACHER. I do not know anything about that particular shipment, but you know, of course, there are various shipments held as enemy destination, destination undisclosed. I do not say anything about this particular one.

Mr. EDMONDS. Is there any other statement you want to make, Mr. McGee?

Mr. MCGEE. Not any, sir.

Mr. EDMONDS. You know about this, do you not?

Mr. MCGEE. Which one, please?

Mr. EDMONDS. Was there more than one?

Mr. MCGEE. I do not know. It does not look familiar to me.

Mr. EDMONDS. This is a copy of the original.

Mr. MCGEE. Of the Association of American Underwriters?

Mr. EDMONDS. Addressed by Thomas McDonald to F. H. Orborn, secretary.

Mr. MCGEE. Yes; that is the one. Mine is a mimeograph copy.

Mr. EDMONDS. Two weeks before you sent this down to us I had the first paragraph and a general digest, so I knew what was coming.

Mr. MCGEE. Yes; I had that copy.

Mr. EDMONDS. When I read this the other day—"it must be borne in mind that the American marine insurance facilities have just undergone"—I said that sounds like an old story I read about three weeks ago. Is there anything here yould like to talk about, Mr. McGee? You are pretty well posted on this insurance business; they tell me you know it all; that you are now the big mogul in insurance.

Mr. MCGEE. No; I do not flatter myself with any such a thought.

Mr. CHINDBLOM. That is modest.

Mr. EDMONDS. He is the head of the big association we are going to put on the map and get it to working again. You stated that the absence of any considerable amount of hull insurance is due to the fact that but few vessels are registered under the American flag engaged in world-wide commerce.

Mr. MCGEE. You see, hulls are insured by the Government, not by the companies. We really have nothing by way of experience on which to base anything in the nature of a rate.

Mr. EDMONDS. In that connection let me say to you this. The recommendation to the Shipping Board, and it has to come to a climax before very long, is they be allowed to continue in insurance of

hulls. I think I am fair in saying the desire of the committee is they should not do anything of the kind. Now, if it means the payment of these premiums to England and these underwriters, then it would be a very serious question with the committee whether or not to continue it.

Mr. McGee. The American underwriter, I believe, would go, and by that I mean the native American insurance companies, could go a long way toward insuring the full value of those vessels, provided they are given the whole business in order to get the spread and and the average. The bulk counts for a great deal in marine insurance. If they had that great bulk of premiums which would ensue from that, I have no doubt that the great majority of the companies would very broadly extend their lines. Where my companies do take $50,000 if I had a bulk of business of that kind I unquestionably would take one hundred or one hundred and fifty thousand, because I am spreading the possible loss: I am spreading the losses which will occur over a larger number of individual risks on which no loss will occur to take care of those risks on which the losses will occur. If I have only a small number of risks the proportion of probabilities are that I shall get more losses on a small income than that income will pay. Put it in another way. Say, for instance, there are bound to be 10 total losses in the year. If I have but 100 risks I am pretty likely to get 5 out of this 10 losses, but if I have a thousand risks I may get the full 10 losses, but I have manifolded my premium income without increasing my loss outgo in the same ratio. That is what I mean by the spread of risks.

Mr. Edmonds. Very much the same thing is true of the shipping business in connection with the writing of bonds?

Mr. McGee. Yes.

Mr. Edmonds. A man has 100 ships, if he loses one ship he loses 1 per cent of his ships. If he has only four ships he loses 25 per cent of his ships. That is the reason why this question of bonds and mortgages is up to-day.

Mr. McGee. Of course, when marine underwriters first began to talk about the question of insurance of the Shipping Board's vessels we had in front of us the thing that we look upon with the utmost horror, that is the wooden ships.

Mr. Edmonds. So did we.

Mr. McGee. We looked upon them with the utmost horror. And those of us who had had experience in olden days with wooden ships had more than an inkling of what it meant. The Providence Washington Insurance Co., which is one of those I represent and which I have been connected with for 35 years, was organized in 1799. It has been through the country's history of shipping, and they had their records that were always available to me that covered at least 60 years of that time of their life, and their figures pretty closely analyzed the results with wooden ships, as a decadent trade. Of course, during the life and activity, the great activity of the Nation as a wooden ship owner, things were kept up, but ships began to go down, steel replaced them, and the wooden ship, whether sail or steam, was a dread.

Mr. Edmonds. Who insures these wooden ships that are running in private ownership, those that have been sold by the Shipping Board to the Franco-American line?

Mr. McGee. I do not know.

Mr. Edmonds. Can they get insurance?

Mr. McGee. Those of them that are good, that are real good, seamanlike ships, can get insurance at very moderate rates, but there is such a large number of them, I do not know just how to characterize them, that are unseaworthy. A house carpenter can not build a ship.

Mr. Edmonds. Suppose we were to start out these real American companies and as we sell them ships from the Shipping Board we require them to insure their hulls in any one of these 30, 35, or 40 companies. I assume that would be met with a great cry of pleasure by the New York insurance agents?

Mr. McGee. I believe it would.

Mr. Edmonds. It would leave out those companies that have foreign influences and evidently show their desire to encourage foreign insurance as much as possible, and only pick those that are as nearly as possible pure American companies. Do you think we would build up an insurance line in this country?

Mr. McGee. Forty companies, the average line on those 40 companies I should estimate would be $25,000. Some would write more and some less. I think you would come pretty close to taking care of almost any vessel, and if you were met with a condition of that kind—if that thing is going to occur—I have not the slightest doubt but what a large number of the American companies would do yeoman service and stretch their capacity to the utmost to meet the condition.

Mr. Edmonds. Of course we could reduce our line very materially to those companies that have shown in their disposition and manner of doing business that they were not going to try to hold the insurance in this country. Would that be a good stimulus for American insurance companies?

Mr. McGee. Undoubtedly. I think undoubtedly it would bring into the business a great many of the American fire insurance companies that are now reluctant to take it up. You see, American marine insurance, as a whole, is to-day in the doldrums; there is not much business going; there is not much export business going; there is a limited number of vessels sailing, and those vessels are not of the prewar high class. I mean the regular line traders. For instance, we have not the high-class steamers of the Southern Pacific Co., trading between New York and New Orleans. I suspect a good many of those ships are still in Government or other service. I have not checked it up lately to know, but I use that merely as an illustration of what I mean.

Mr. Edmonds. But I presume all ships are busy now, are they not? A great many of them, though, are making very poor voyages, but I imagine there is cargo for every ship, for I certainly have in my office demands for ships. They are crying for ships, and certainly there must be business for ships that are going.

Mr. McGee. Business for ships that are going.

Mr. Edmonds. And they have all got to be insured?

Mr. McGee. Yes; but a great many of these cargoes are insured in foreign countries, though—their own.

Mr. Edmonds. Every time you say that you kind of make me feel sorry to think you have not brought out some scheme to prevent it.

The president of the American Hull Association and secretary of 12 companies or underwriter for 12 companies, and so forth—I think if I were in your place I would lay awake at nights to stop that.

Mr. McGee. I do.

Mr. Edmonds. I see you recommend here the establishment of a model law in the District of Columbia. The District of Columbia is something like Switzerland, you know it has not any navy.

Mr. McGee. No; it has not any navy.

Mr. Edmonds. I presume what you meant there was a general insurance law along the lines of what we thought would be a model law for the District of Columbia to work on, and that would somewhat prove a basis for the other States?

Mr. McGee. Our thought was just this, that if a model law was worked out and adopted as the law of the District of Columbia, that that law would be largely adopted by a great many of the States and grow to be the model law for them to work on. A good many of the States now have laws which are quite inapt for marine insurance. Some of the States, which have no marine, which do not touch the seaport, still have laws which are applicable to marine insurance. Those laws are exceedingly troublesome to the marine insurance companies at times. They are troublesome because the State frequently reaches out beyond its own confines; it goes so far as to say, for instance, that if you do that class of business anywhere, we will refuse you admittance to our little State.

For instance the Insurance Commission of the State of Oregon, I think it was, recently said to an insurance company organized in Texas for casualty and liability workmen's compensation, because that company had in its charter the right to do a marine-insurance business, although it did not purpose to exercise that right—the insurance commissioner of the State of Oregon said: "You have more rights under your charter than is granted to a company of our State, and therefore you can not come in. Now, if you will cut out of your charter the right which you purpose to transact a marine-insurance business, we will permit you to come in." Well, Mr. Insurance Company said: "We do not purpose doing a marine-insurance business in the State of Oregon, and there is considerable doubt that we will do it anywhere." It did not make any difference. He said: "You have the right to transact merchant-marine insurance, and therefore, as a casualty company, you are not admissible to this State." It is merely a freak of the law of the State of Oregon that it just happened to fit into a condition of that kind, and the insurance commissioner of that State was a gentleman that exercised all the prerogatives of his office, and that company literally had to reorganize and cut out of its charter the right to do a marine-insurance business.

Mr. Edmonds. Let me ask you something? If we were to pass a bill for the incorporation in the District here, a model bill, as you call it, it would not be of any particular advantage except as a model law?

Mr. McGee. As a model law.

Mr. Edmonds. Your companies would not come down here and transfer your incorporations to the District of Columbia and have an office here and virutally call it your home office and then go up to the State of New York and do business?

Mr. McGee. No; but, on the other hand, because it would not be of any avail to us outside.

Mr. Edmonds. No; because you have to follow the State laws anyhow?

Mr. McGee. Yes, sir; that is quite true; but if the question of legislation is undertaken in some of these nonmaritime States, or in some of the maritime States that are now becoming prominent in maritime affairs, which is considerable, they might adopt that law as being something under which they could work.

Mr. Chindblom. It would be a model law, is all?

Mr. McGee. That is all it would be. A good many of the States and legislatures of many of the States enact laws and they are groping for an answer. They do not know what they want. They want to reach a certain definition, but do not know how to do it. If there were on the books of the District of Columbia a model law and they turned to that law, they have got something to start with. That is about all there could be to it.

Mr. Edmonds. Are you folks making any endeavor to get your legislature to put back in the law prohibition against cutting of brokers' commissions?

Mr. McGee. We can not see that it is a thing—I am speaking for myself—I can not see that it is a thing that we can touch; I do not see that we can say to a broker what he may or may not do with this compensation.

Mr. Edmonds. Are you not afraid to be followed by Pennsylvania, and all other States, and lead to a sort of chaotic condition?

Mr. McGee. I do not see that it alters the real situation at all. The enactment of that law in New York State really accomplished little or nothing that had not previously been accomplished by the general law. It was intended to put a stop to what were conceivably improper practices, but those improper practices were indulged in only by a class of brokers who were temporarily in business. With the passing of the war-risk insurance, which had attracted them, those brokers have gone out, a large number of them having already retired, ceased to do business, ceased to trouble us.

Mr. Edmonds. Simply the lack of desirable business led them to retire; it was not the law?

Mr. McGee. It was lack of business. It was lack of what might perhaps be called big money, and to the insurance broker the war risk at one period was big money, because the rates of premiums were higher; the losses were high, too, but the liability that the company was assuming had to be measured with a big rate. Now, big rates mean big commissions.

Mr. Edmonds. Very frequently some of these companies, with correspondents in London, were able, by advance information, to make money back and forth very nicely, were they not?

Mr. McGee. I suspect that was so. I, unfortunately, was not in that myself. I might have attempted to participate, but we found no way of getting any advance information as to what was going to happen.

Mr. Edmonds. We hear some of our friends have done very well in that line.

Mr. McGee. I should not be surprised.

Mr. EDMONDS. I notice your association places itself on record as being in favor of load lines—the last part of this brief?

Mr. MCGEE. Yes.

Mr. EDMONDS. I presume by that you mean, of course, in the overocean business. You do not mean the coastwise?

Mr. MCGEE. We intended to recommend, I think, that a load line would be advisable not only for coastwise, not only for deep sea but for coastwise, but that entirely different rules or lines would be used for each. The present British Board of Trade's load line is a flexible thing. The disk which the paint on the side of a ship when they fix the load line has several different marks in it. The ship may load to one line for one class of trade and at one season of the year; at another season of the year, or in another trade, she must do something else.

Mr. EDMONDS. We are taking up the question of load line now and we meet with a very great opposition on the Pacific coast with these lumber ships that do not want a load line, and we met with some opposition on the Atlantic coast from the coastwise steamers. We have thought possibly if half a load line was better than none, that it might be a good thing to bring out a load-line regulation for registered ships—that is, ships that go in the overocean business—and it is possible we would bring out legislation along that line. Whether we will go into the coastwise or not, I do not know. My preference would be to go into all of it, but at the same time I can realize sometimes pressure is so great that you can not go any further than you can go.

Mr. MCGEE. The difficulty, of course, is that a great many types of steamers, which were built for special purposes, in which it would be almost impossible to put on a load line that would not be a trouble for some other class of ships. You have got the steam schooners on the Pacific coast. The steam schooners were built for the carriage of lumber. They were constructed to carry pretty stiff jags, but they are built that way. There are a great many steamers, a great many vessels, which are absolutely unsafe unless they have got a good stiff deck load; they need it. But, of course, those vessels are built for a special trade.

I have had, within the past two or three days, my attention drawn to a case of a schooner, an old American schooner that has been sold to French owners, loading hard pine in Providence, I am told, and as I hear it she is loaded down to within 1 inch of her scuppers and she has a deck load they think is within a foot of the water line; the top of the deck load is down to 1 foot of the water. Perhaps you have heard of that case.

Mr. EDMONDS. Is that the way she is loaded?

Mr. MCGEE. That is the way she is loaded now.

Mr. EDMONDS. Where?

Mr. MCGEE. Providence, R. I. She is ready to sail.

Mr. EDMONDS. Where is she going to?

Mr. MCGEE. Going to a French port. Coupled with that is a rumor that——

Mr. EDMONDS (interposing). That that is not the port she is going to?

Mr. McGee. Yes; she is going to that port, but coupled with that is the rumor that she will lose all her deck load before she passes Block Island, in order to make her seaworthy.

Mr. Edmonds. I presume there is a very great rush to insure her?

Mr. McGee. A very great rush; yes.

Mr. Edmonds. You can not keep these brokers away from Providence!

Mr. McGee. The grapevine telegraph has been very active.

Mr. Thacher. You mean only an inch freehold?

Mr. McGee. That is the description given. That is not a very lucid one. She is loaded with hard pine. She is a little schooner.

Mr. Edmonds. I am going to ask something, Mr. McGee, we have had in mind, and I guess you have not thought of. We passed what is known as the Webb-Pomerene bill, allowing combinations of business concerns for foreign trade without interference with the Sherman Act. Would it not be proper, along the same line, to allow those combinations in insurance, and would it not be a good thing for American insurance?

Mr. McGee. I think it would be very helpful.

Mr. Edmonds. Providing it was restricted strictly to American concerns.

Mr. McGee. I think it woud be very helpful. One of the great difficulties and one of the great bugbears that have stood in front of underwriters every time any suggestion was made of getting together for consultations of rates has been the fact—well, it is illegal and you will go to jail if you do it.

Mr. Thacher. But it is not.

Mr. McGee. Well, they can not convince themselves that it is not, and we have had that urged to us a great many times, that it is illegal.

Mr. Edmonds. Whether legal or illegal it could make a great deal of trouble for you?

Mr. McGee. It could make a great deal of trouble. I believe, in a sense, it might be done under the Federal law, may not be illegal under the Federal law. It is probably illegal for an insurance company, which insures cotton in the State of Texas, to even confer with somebody about what rate may be made on that shipment, although the owner of that cotton may be in Texas and the cotton actually in Mississippi.

Mr. Edmonds. This is one of the conclusions the committee arrived at, that that method of honest and legitimate conduct trying to build up foreign trade was not an unfair proposition, provided they did not act unfairly to other interests, or equal interests in the business. That is one reason why we have asked you a good many questions along the line whether you blackball people and keep them out of the associations, and so on. We felt that to build up our foreign trade there is just as much reason for consultation and combination in insurance as there was for concentration and consolidation in steel or iron or anything else. Now, if we could revise the Webb-Pomerene Act, or legislation along that line, allowing combinations between insurance companies, legitimate insurance companies, American insurance companies, allow them to consult to-

gether without any danger of any question being raised as to the legality of it, we thought that would be helpful. Do you think that would be helpful?

Mr. McGee. I do not know whether that would override State laws or not.

Mr. Edmonds. Let me tell you this, that it has been decided by Justice Hughes, of the Supreme Court, that the marine law is national law. Is that not right, Doctor?

Dr. Huebner. It would seem to indicate that; yes, sir.

Mr. Edmonds. It may not be, but of course I am not a lawyer, but the statement has been made to me that that is the case.

Dr. Huebner. Thames *v.* Mersey.

Mr. Edmonds. It was decided the marine law was a national matter. Is that not right, Mr. Thacher?

Mr. Thacher. In the case of The Thames *v.* Mersey case (237 U. S.).

Mr. Edmonds. Was that the decision? Do I state it right?

Mr. Thacher. I would not attempt to state especially for the purpose of this committee exactly what that case decides. It decides the question whether the Federal Government has the right to regulate interstate commerce. It is as to taxation by indirection on exports in interstate commerce.

Mr. Edmonds. What do you think of allowing that power in insurance by an extension of the Webb-Pomerene Act to cover marine insurance, or an act similar to it?

Mr. Thacher. A great deal depends on the act, whether by such a method you would control economically the flow of international trade with insurance.

Mr. Edmonds. The question would only be that American insurance companies could pool together in such a way as to consider rates and to consider a natural defense.

Mr. Thacher. With the exception of some State laws to-day they can do it now.

Mr. Edmonds. That, of course, is true, but it is not done because of the fear of the probability that they may overstep the law and come in for a rigging, if they do not get anything else.

Mr. Thacher. I think it is also true that marine insurance is freer from competition than ever existed in any form of business or insurance in the world, and I speak from an experience of 20 years.

Mr. Edmonds. Of course, we have got another law that we have been looking at that I might suggest to you. We have got an antidumping law, which does not allow the sale of goods in this country for a less price than they are sold in their home country. Does that cover insurance?

Mr. Thacher. Insurance does not come under it.

Mr. Edmonds. It might cover it.

Mr. Thacher. A declaration by Congress that insurance was a commodity. A mere statement that it is a commodity does not make it such.

Mr. Edmonds. Of course I am not an attorney—I have to ask these questions. I do not know. We have had the matter under consideration. Of course, the Webb-Pomerene Act, allowing the joining together of these companies to take care of foreign business, which would be virtually all of the overseas business, might remove a good

deal of the fear of oversteepping the mark and making themselves liable under the Sherman Act, and might encourage the companies to get together. I do not know whether it would be a good thing or not. That is one of the things we have had under consideration, and we have been looking at the antidumping clause. With you I am not quite sure that any clause like that, without being entirely reorganized or reframed, could affect the insurance situation.

Mr. McGee. There is no doubt that anything which would permit the American companies to get together and adopt some one united course, I think that would be very helpful. There is no doubt about it. The American companies have been handicapped, always have been handicapped by the fact that so many of the foreign companies that have been here have sister companies, and such, in their own home countries, and therefore when they write a risk in this country they can write a tremendously large line. One of the earliest things that put the American marine insurance companies into trouble was the fact that so many of the foreign companies, when the risk was offered to them, instead of taking that part of the risk which they were asked to carry would say, "I want all of it or none of it." Now, the practice has been that if there is a large risk the broker went from company to company and gave to each one that part of the risk which he wanted. If he came to me and I wanted $20,000 of it he gave me $20,000; he would go to my neighbor and give him what he wanted; but several groups of foreign companies adopted the practice of saying, "Well, if you do not give me all of that risk I will not take any," and Mr. Broker may have needed that further share of it. Now, such a thing as you suggest in the Webb-Pomerene Act, perhaps, would put American companies in position to unite to meet conditions of that kind. I am not sure that it would, but that is my first impression.

Mr. Edmonds. We are considering that at the present time, and we would like to have your views on that subject.

Another thing, which, of course, would be more or less affected by the State laws, is the desirability of permitting fire and marine insurance companies to transact other types of insurance. It appears the English insurance companies take virtually any kind of insurance they want?

Mr. McGee. Yes; practically.

Mr. Edmonds. In some of the cases they even write life insurance. And over here the companies seem to be limited to certain lines. Would not the companies be better off if they were allowed by the States to increase their lines?

Mr. McGee. I think there is no doubt that they would. A marine insurance company, a company which is licensed to do a marine insurance business, frequently finds itself confronted with insurances which are perfectly legal in England, and transacted by a marine insurance company, which we can not do here. Take the matter of builders' risk insurances. The forms which were in early use by the British companies covered loss of life and personal injury from various causes. That is, if a vessel under construction meets with certain classes of accidents and there is a resulting loss of life or personal injury, it would be covered under that marine policy. That would be an illegal thing for an American marine insurance com-

pany or a fire insurance company in the great majority of the States.

Mr. EDMONDS. It seems to me that all forms of insurance, except, possibly, life insurance, could be very well amalgamated in a company without any particular conflict. Some companies do write, I suppose, more lines than others?

Mr. MCGEE. Yes.

Mr. EDMONDS. They are allowed to under their charters?

Mr. MCGEE. Yes, sir. It is a distinct advantage to any insurance company to be able to write a variety of lines of business. It has been the experience of one of the companies that I have been connected with for a number of years that in the years when the fire insurance went bad the marine insurance showed them a profit. The result was that on the year's business they came out satisfactorily. The years in which the marine insurance went bad, the fire insurance went good.

Mr. EDMONDS. Is the policy of the State laws, generally, now, to restrict a company to one or two lines?

Mr. MCGEE. Yes; under the laws of most of the States. Take New York State, for instance: A company which does a fire insurance business may do a marine business, but it may not do anything else but those two. Up to a very recent period New York State only permitted a company to do either fire or marine; it could not do both. There were some exceptions to that, but those were companies that were transacting business in that State before the law was enacted.

Mr. EDMONDS. Is that the reason why the fire insurance companies have tacked on the automobile business and everything else, and called it inland insurance?

Mr. MCGEE. No; the reason why automobile insurance is called inland insurance and classed as marine insurance is this: When automobiles first began to be used the fire insurance companies were afraid of them; it was doubtful whether they could write a risk of that kind, but the marine insurance companies could, because they were classed as transportation, or else moving by power; and it was the marine insurance companies that first tacked on the writing of automobile insurance. It was taken on a little bit, experimentally, and it grew, I think Mr. Hedge is the man who can answer that question better than any other man I know of. Fire insurance companies afterwards acquired the right to transact it, but it has always remained classed as marine insurance.

Mr. EDMONDS. Here is another thing I have in mind: When the Shipping Board was organized, supervision over marine insurance was given to the Shipping Board to prevent any injustices—not any regulatory power, but a supervisory power. This is a question in connection with the Shipping Board's supervision. Is it desirable to require a periodic statement of rates, agreements, amalgamations, and community of interest between marine insurance companies, both domestic and foreign, as regards our market? Would that tend to disseminate information and improve the business?

Mr. MCGEE. If they were required to make reports to the Shipping Board?

Mr. EDMONDS. If they were required to make reports to the Shipping Board of rates, agreements, amalgamations, and community of interest.

Mr. McGee. I am afraid it would be harmful, for this reason: The insurance company in a foreign country would have those records available.

Mr. Edmonds. It is not necessity that they should be published, you know.

Mr. McGee. No; that is quite true; but somehow or other things that are not published do get out, and they do get, by various channels, into place where they do the most harm. The result, as I see it on my first thought, is just this: That a company which is not domiciled in the country would have before it a price catalogue which it could cut on such parts of the business as it might desire to attract.

Mr. Edmonds. This proposition, advanced after due consideration by the committee, says that—

> These agreements, amalgamations, or community of interests, need not be made public, but should be known to the Government in the sense that some duly constituted authority should be aware of what is transpiring with a view to eliminating any practices which are inimical to the interests of this Nation.
>
> For some years foreign companies, particularly British companies, have been organizing and purchasing other companies already organized under American laws, which they operate as companies of the United States. This is done with many of the home offices, the use of which is permitted by British law, although the similar use of funds is practically forbidden to American companies by the laws of many States. Such function and interlocking is fostered by the business of Great Britain. They can not use the funds of their American branches for this purpose, but they borrow the money here or send it over and so have gradually been increasing and strengthening their hold upon American fire and general insurance. Thus far the facts collected by the committee indicate that seven so-called American companies transacting marine insurance are controlled by British companies through ownership; four other American companies seem to be so closely allied as to clearly indicate a sympathetic relation with foreign interests; five other companies controlled by foreign interests do an inland business which is not strictly of the marine insurance variety, although said companies are available for the transaction of marine insurance; two other American companies, recently created, and permitted to write marine insurance by their charters are controlled by foreign companies; and three other American companies have foreign connections, although the data available is not sufficient to show that they are actually controlled.

Now, there is a situation that, if we desire more marine insurance to be written in America, would require somebody to keep a finger on it, because it is evidently growing. So we have here the question of the desirability of having some authority—just the same as we are doing in the shipping, exactly—that will say, "These agreements are contrary to public policy and you will have to stop them," or, "This agreement is all right and you can go ahead with it." As I say, it is not necessary to have publication of these documents in any way, shape, or form. It would mean that the party who had charge would send for you and he would say to you, "That agreement of yours is all right in this case, but in that case you had better stop it; that is not good policy."

Would that be an advisable thing?

Mr. McGee. My first impression is that it would not, and for this reason: Those agreements would probably be passed upon by some one who in all probability would have only a smattering of knowledge of marine insurance business.

Mr. Edmonds. Suppose we saw that one member of the Shipping Board was a good marine insurance man, and made him the authority?

Mr. McGee. That would be a good thing. But the great trouble, as I see it, would be that while it might start right, and start under proper management, administrations do change, and insurance companies go on forever, more or less, and the first thing we know something which is desirable and well managed finally slips into hands that might create so much trouble—it might; I do not say it would—it might create so much trouble for the insurance companies that it would be exceedingly burdensome.

Mr. Thacher. Mr. Chairman, I do not want to interrupt, but the question that you just put is a very interesting one, of fundamental importance, and I suggest that if the committee would state those thoughts and give time for the witnesses to turn them over and give them careful thought, rather than ask any man, however skillful, to express an opinion on such an important subject, it would be only worthy of the topic and worthy of its importance. Very few men can express an offhand opinion of value on such a fundamentally important subject. Even a trained man would need time to reflect on a subject like that.

Mr. Edmonds. Yes, I think that is true. We have been talking it over for some time, and these ideas are the ideas that we have boiled down out of our general thought. Whether any member of the committee has spoken of it to anybody or not, I do not know. I know I have not.

Mr. McGee. It is news to me.

Mr. Edmonds. Going further into that, it says:

> The records of all our States deal only with general totals, and these figures are largely valueless since they include various forms of inland insurance, such as motor vehicle, tourist baggage, registered mail insurance, etc. In the present investigation the data for these various classes of insurance could be separated only with extreme difficulty and, in large part, only through correspondence. It was only through correspondence that one could even ascertain the number of American and foreign marine insurance companies transacting marine insurance in the United States.

Mr. McGee. The National Association of Insurance Commissioners have adopted a new blank for reporting the figures, which I believe beginning with the business of 1920 will segregate premiums, losses and such things in the various lines of business separately; so that I am inclined to think that beginning with the business of 1920 the facts will be shown with greater accuracy.

Mr. Edmonds. (Continuing:)

> No public records exist anywhere in the United States which differentiate the volume of marine business into hull and freight, cargo, and builders' risk insurance, or which show the volume of marine insurance in the foreign trade as distinguished from the coastwise trade. This information had to be obtained through the committee's questionnaire.
>
> No public records exist to show the distribution of reinsurance among domestic and foreign companies. No public records indicate the volume of reinsurance placed with foreign companies.
>
> No public records indicate the amount of American marine insurance exported abroad.
>
> No public records indicate the amount of American marine insurance reinsured by American companies, or by admitted foreign companies, with nonadmitted foreign companies.
>
> No public records indicate the amount of marine insurance originating abroad and reinsured by foreign companies in American companies.

In London, we are advised that that the details of the marine insurance business are trade secrets, reports, if any, being made in confidence subject to test by a committee of the Board of Trade and by audit of Lloyd's. Thus their volume is a business secret in the keeping of business committees, and combined balances only are made public. For similar reasons there is an absence of analytical reports of the insurance of most other nationals.

That is a question that I would be glad if you gentlemen would think over. We are trying to give you some of the thoughts that come to us along that line. This committee went through the merchant marine investigation six years ago and we had very much the same condition to meet, and that is probably one reason why we have been able to gather our information a little more easily this time than we did before. We found that a condition existed between the ships, almost identical in every way with that existing to-day between the marine insurance men.

Mr. McGee. I think it is quite true that the individual who is nearest to a problem frequently absolutely overlooks the real answer to his trouble. Marine insurance is a very confining business and it is a technical business, and I think there is no doubt that we miss a great many tricks through the fact that we have our eyes so close to it, and that gentlemen like yourselves, who attempt to look on and watch the movements on the chessboard, can see lots of moves that the players miss.

Mr. Edmonds. As I told you this morning, what we want to do is to be helpful. We do not want you gentlemen to come down here and say, "We can't be helped;" because we are satisfied that you can be helped, and we are satisfied that you have the brains between you to help yourselves. Now let us all get together and see if we can not pull together and have 60 per cent of the business done in this country and 40 per cent outside, instead of having 30 per cent done here and 70 per cent outside.

Mr. McGee. That is highly desirable from our point of view.

The great trouble with the underwriters, fire and marine, I believe arises from the fact that they have had so many difficulties with insurance departments all over the country, with insurance commissioners who have taken rather radical points of view, that I think a great many of the fire underwriters as well as marine underwriters are what you might call "buffaloed." I know that the one thing that I have to meet with the heads of some of the companies that I represent is the absolute fear that we may do something which the insurance cimmissioner of some State might take exception to; because if we run counter to Mr. Insurance Commissioner he may throw the company out of the State for a valuable fire business as well as a valuable marine. I think that is a very potent cause of fear; I know it. We are all afraid of doing something which is going to cause our companies to be put out of some State where they may have a valuable business.

Mr. Edmonds. Would not supervision along the line that I spoke to you about, by the National Government, assist you with those people?

Mr. McGee. My first thought is that it would. It sounds very reasonable to me; but I would like to have the privilege of turning it over in my mind to see what I can make out of it.

Mr. Edmonds. A condition such as that in 1916, where $140,000,000 or $150,000,000 worth of fire insurance premiums were sent out of the country, is not a helpful condition. It is a reflection on the ability of our business men; and I should say that we ought to get together, particularly now that we are supposed to be the creditor Nation of the world, and see that that condition does not exist. As long as England was the creditor Nation of the world it probably could not be helped; but now that conditions have changed we ought to be ready to change along with them.

Mr. McGee. I think it is something like five years ago that I went to the officials of one of the largest of the American banks and asked them to undertake for our companies some classes of business which we had had to transact through British banks for a great many years, and it took me nearly four years to convince that bank that it was something that they ought to do: if they did not do it because of the money that they might make out of it, they should do it because of their duty to American commerce and to American marine insurance companies. And I am glad to say that within the past year or two they have done it, and they are taking it up. That is the matter of paying claims for American marine insurance companies in foreign countries. We have to pay our claims there; we have to pay them to the consignee at the place of destination of the goods that we insure. British banks were doing that work for us, and doing it very satisfactorily, and doing it at very moderate charges; and yet it took me four years, nearly.

Mr. Edmonds. That was occasioned by the fact that the banks did not have their branches; to-day they have?

Mr. McGee. They had them. They had their correspondents.

Mr. Edmonds. I saw the list of the correspondents published recently, and it shows that we are fairly well covered all over the world to-day, by one institution or the other. It shows that we have extended the banking system and that the bankers are alive to the present situation. Now, it is up to the rest of the business of the country to get alive to the situation just as much as the bankers have; and I think it does not require very much more than calling it to the attention of the American people, to let them once get in the right track, and I think this concentration of facts and figures that we have brought forth here will assist in that. We could make that very much more explicit, of course, and we will make it more explicit as we go along; and it will assist in bringing to you gentlemen's attention the fact that we should have, and we all ought to get together and see that we do have, the proper facilities for doing our proper share of our marine insurance.

Mr. McGee. I am very much interested in the statement of the results of the questionnaire this morning. It was exceedingly interesting, and there was a good deal in it that was quite surprising to me.

Of course, what is being sent out of the country, I anticipate, is the excess reinsurance over surplus lines, and I doubt that it would

be possible to get that into the hands of American insurance companies, even if we were to form such things as the burlap pool and the cotton pool.

Mr. EDMONDS. Would you not be able to do it if you had 20 or 30 or 40 more good strong American companies?

Mr. MCGEE. No; because they would all find themselves in the same position of having surplus business which would come to their attention so long after the sailing of the vessel. It must be automatically protected.

To get back again to an illustration which I used earlier in the afternoon: We insure goods through agencies in Buffalo, Detroit, Cleveland, Omaha, Kansas City, and so on all over the country. Those shipments, when they originate in those places, are coming by railroad, and there is no knowledge of when they are going to reach the seaboard, nor the name of the steamer in which the shipments go. The result is that we frequently get large accumulations which must be automatically reinsured. We must have contracts which automatically take our surplus lines.

Now, an American company which is also doing business in the same direction could not afford that same kind of contract. It must be placed with somebody who is not getting that class of business, and very frequently we are able to exchange business with the foreign country. That is to say, if a company in Paris, for instance, will reinsure a share of our surplus lines, we will reinsure a share of theirs. We swap with them something that they do not get, and we get in return something that we do not get. Our friends in the American market would all find themselves with surplus lines, or likely to have surplus lines, on the very same steamers that we have. They could not give us such treaties unless that company confined itself to a reinsurance business. Now, besides fostering direct-writing American insurance companies, if it were possible to foster reinsurance companies, making it an advantage to a company to write a reinsurance business and confine itself to that, in that way we could build up the capacity of this market far better than we could if we were to confine ourselves to direct-writing marine insurance companies. Have I made that clear?

Mr. EDMONDS. Yes. Have we not quite a few marine reinsurance companies here?

Mr. MCGEE. No American marine reinsurance companies.

Mr. EDMONDS. What is the Rossia?

Mr. MCGEE. The Rossia is a Russian company.

Mr. EDMONDS. It has just recently been incorporated under the laws of Connecticut, has it not?

Mr. MCGEE. Yes; but it is the original Rossia.

Mr. EDMONDS. The Rossia company seems to have been exceedingly successful.

Mr. MCGEE. Yes; I know them quite well. They are splendid people.

Mr. EDMONDS. Would not a number of reinsurance companies of that kind be profitable in this country?

Mr. MCGEE. Yes. That is exactly my point.

Mr. EDMONDS. Why do they not form them?

Mr. McGee. Because they do not know the business. It is a business which is different from a direct-writing business, and I think that the laws of a great many of the States bear heavily upon a reinsurance company, rather more than they do upon a direct-writing company. Then another thing: The great reinsurance writers of the world have been the German companies. They have specialized—German, Russian, and other continental countries. Now there is an inclination, I believe, amongst Americans to form reinsurance companies, but they are groping. They do not know the way, and they must grope until they find the way to do that business successfully.

Mr. Edmonds. A District of Columbia charter that would allow the formation of reinsurance companies, liberally, would be a very good place to establish reinsurance companies, would it not?

Mr. McGee. I am rather inclined to think it would; just as a charter under the District of Columbia might be very excellent for American companies that want to do an international business. That is to say, a group of American companies might be permitted to form an insurance company which they in turn would own, but through which they would operate in foreign countries. I think perhaps that might get around the disabilities that a great many companies now suffer under through the State laws. For instance, any deposit which an American marine insurance company has to make in a foreign country is literally taken out of the American assets of that company. They lose all benefit of it. It is not merely that they take $500,000 out of that company's funds, but under the laws of a great many States its underwriting capacity in the United States is reduced just so much. So the model law for the District of Columbia has a great many possibilities in it.

Mr. Edmonds. We noted in the answers to the questionnaires that the companies seemed to form themselves into groups, in each of which there were either interlocking directorates or there was a finance company that controlled the stock—virtually the same directorates. They seemed to run into groups of three or four. What is the reason for that?

Mr. McGee. Are you speaking of American companies?

Mr. Edmonds. Yes.

Mr. McGee. There are a number of cases of that kind where one company has built up a large business and has about reached the limit of its possibilities as to volume of business, where by forming a new company they could put that company into entirely different territory and procure an additional amount of business. Perhaps I can answer that in another way. Company A might have a very important general agency in New York City, from which it was drawing a very large volume of business. If it increased its capacity, that general agency, it would not produce enough business to warrant it. Now, by forming a sister company, or by acquiring a company which can become a sister company, they can plant that sister company in the same territory and draw just about as much more income out of it as they have in the original company.

Mr. Edmonds. From another agency?

Mr. McGee. From another agency; and that sister company's business would carry itself better than if they put that additional

capital into the original company. If the original company's capital was $4,000,000 and they increased it to $5,000,000, the additional business that they would get probably would not warrant that increase. On the other hand, if they took that million dollars and formed an entirely new company under the same general management, they would probably get three or four times the volume of business that they would have gotten through the increase in the capital of the original company.

Mr. EDMONDS. It seemed that all of the companies doing a marine insurance business—and possibly that may be true of fire, too——

Mr. MCGEE. I was speaking more of fire than marine. I do not think it is true of marine.

Mr. EDMONDS. It is both. They seem to have gravitated into a position where three or four companies would be formed into a group, with either a finance company controlling all their stock or with interlocking directorates handling the whole business, and I was wondering what really made that. I should imagine that what you say is pretty nearly right; that State conditions, one company handling a line that is allowed in certain States where another company could not, and things of that kind, probably have brought them to increasing their capitalization in that manner.

Mr. THACHER. Is there any group of companies in the marine field where a finance company controls the stock?

Dr. HUEBNER. Yes; there are several where they have a security company or an investment company.

Mr. THACHER. Then they are not primarily marine?

Dr. HUEBNER. Yes; there are five that confine themselves to marine insurance.

Mr. MCGEE. You are speaking of companies that are controlled by foreign capital?

Dr. HUEBNER. No.

Mr. MCGEE. There is an interesting situation there.

Dr. HUEBNER. American fire and marine companies in quite a number of instances are in groups, where the control is in the hands of a securities company of one kind or another.

Mr. HEDGE. Mr. Chairman, if you will allow me, I think I can throw some light on this point. There are certain States that do not allow, by their law, one insurance company to own stock in another insurance company, and in order to comply with the laws in those States where they really own stock in another company they have transferred it over to security companies, the stock of which they in turn own. It is beating the devil around the stump.

(After informal discussion off the record:)

Mr. EDMONDS. Is there anything more you want to say, Mr. McGee?

Mr. MCGEE. Nothing more, sir.

Mr. EDMONDS. We are very much obliged to you for coming down again.

(Thereupon, at 5.05 o'clock p. m., an adjournment was taken until to-morrow, Friday, September 26, 1919, at 10 o'clock a. m.)

WASHINGTON, D. C., *Friday, September 26, 1919.*

The subcommittee met at 10 o'clock a. m. Hon. George W. Edmonds, presiding.

Mr. EDMONDS. The first witness this morning will be Mr. Evans, as was agreed on last night.

TESTIMONY OF MR. HENRY EVANS, OF NEW YORK, PRESIDENT OF THE CONTINENTAL INSURANCE CO., THE FIDELTY-PHENIX FIRE INSURANCE CO., AND THE AMERICAN EAGLE FIRE INSURANCE CO.

(The witness was duly sworn by Mr. Edmonds.)

Mr. EDMONDS. Will you kindly give the stenographer your name, Mr. Evans, and your insurance affiliations?

Mr. EVANS. My name is Henry Evans. I am president of the Continental Insurance Co., the Fidelity-Phenix Fire Insurance Co., and the American Eagle Fire Insurance Co.

Mr. EDMONDS. Also, give the names of the companies that are parties to your marine department, Mr. Evans.

Mr. EVANS. I can not tell you all of them. Those three companies, the American of Newark, the American Eagle, the Continental, the Fidelty-Phenix, the Glens Falls, the Hanover, and the Firemen's of Newark.

Mr. EDMONDS. They also represent the Globe, don't they, and the Rutgers?

Mr. EVANS. No, sir.

Mr. EDMONDS. The Globe company and the Rutgers?

Mr. EDMONDS. The Globe-Rutgers is one company and they are not in our office.

Mr. EDMONDS. Are these companies all strictly American companies, Mr. Evans?

Mr. EVANS. They are, sir.

Mr. EDMONDS. There is no interlocking with foreign companies at all?

Mr. EVANS. No.

Mr. EDMONDS. Officers and stockholders all Americans, I presume?

Mr. EVANS. Of course, I can not speak for the stockholders.

Mr. EDMONDS. The officers are, I presume?

Mr. EVANS. Yes.

Mr. EDMONDS. And of course you can not speak for the stockholders?

Mr. EVANS. No.

Mr. EDMONDS. Do you want to make a statement, Mr. Evans? You know, of course, what we are trying to do is to improve the condition of the marine insurance so we can have more of the insurance written in this country.

Mr. EVANS. Yes.

Mr. EDMONDS. I was very much interested in a little pamphlet you wrote a little time ago, and I see you have it in your hand there, and I would be very glad indeed if you would make some statement to us this morning as to your opinion of the marine insurance situation and what can be done to benefit it.

Mr. CHINDBLOM. The American business.

Mr. EVANS. I want to start out, first, by saying I am not a marine underwriter, and I think I can safely state there are comparatively few marine underwriters in the United States. The business is, I believe, very largely controlled by British interests, and, having that belief, I made the statement to Mr. Vanderlip, when he was president of the National City Bank of New York—he was in my office one day, and he said that his object in life from that time on was to help the United States become a world trader, and I made the statement, "Well, you have got to go into the insurance business." He wanted to know what I meant, and I explained to him, basing my opinion upon the success the English had had, that it was necessary to couple banking, insurance, and shipping together, in order to compete in the world-trade business. He asked me then, after some talk, if I would put down in writing what I had said, and when I undertook to dictate it I found it a little bigger subject than I thought it was in talking. So I finally got it in this pamphlet form, which was issued two years ago this next month, I think, or in November. That is merely an expression of opinion based on such facts as had been brought to my attention as a fire underwriter. I believe that the opinions expressed are correct, because some 40,000 copies of that pamphlet have been distributed. The first 10,000 were sent out, and after that they were sent broadcast all over the world; that is, to France, England, and Germany, and wherever there were insurance interests, to all the papers, and to all the companies. There has never been, that I have seen, any criticism of the facts as stated. The British papers said that I viewed the subject from the standpoint of American interests, but they never tried to refute any of the statements made. I do not think that the statements are very specific, perhaps, or that they lead to other than a thought that might result in some action by the people in this country. I did not pretend much in it outside of that—a suggestion.

Now, I do not know how you can break the grip that the foreign companies have on American business except that you can perhaps build up a spirit of patriotism in this country such as exists in England. The British merchant does business with his own companies; that is, with British companies, to the exclusion of all other companies, practically. In this country our merchant will take any policy that the agent gives him. He does not know much about it and he does not have very much to say.

Mr. LAZARO. Does the British business men do that on the ground of patriotism, or because he gets rates over there that lead him to do it?

Mr. EVANS. I think he would do it as a matter of patriotism and facilities, both. I think they extend better facilities than we have up to this time extended. I do not believe that is true as regards business generally, but it certainly is true as regards the marine business, because this country has practically no marine companies.

A number of fire companies have gone into the marine business since the war began, but before that the Insurance Company of North America, the Atlantic Mutual, the Federal, and the Boston Co. (Mr. Hedge's company), I think did the bulk of the business done in this country. As I say, I do not know very much about the marine business.

It is possible, further, that by a system of license, such as exists in the fire business, you may get not an absolute control of the situation but a deterring control that will help to hold the business in this country. I do not know how you are going to prevent a man dealing direct, the broker telling him, "Well, I can not place this; you can send it abroad through such and such a party and get your insurance direct," and then he getting the commission on that. But the average man won't do that, and the average broker does not want to tell him to do it, because it is teaching him how to do his business direct and save the commission at this end. That has been the effect in the fire business.

Mr. CHINDBLOM. Would he save the commission?

Mr. EVANS. He might if he broke away from his broker, if he severed his connection and placed it direct, the broker having taught him how to do it.

Mr. CHINDBLOM. Do you think the marine insurance company might give the owner of the vessel the benefit of the commission?

Mr. EVANS. There is no reason why they should not.

Mr. CHINDBLOM. By way of comparison, before you leave the subject, let me ask whether the American fire insurance companies do any appreciable business abroad?

Mr. EVANS. No.

Mr. CHINDBLOM. I presume that our fire insurance business compares very favorably with any business anywhere in the world, does it not?

Mr. EVANS. What is that?

Mr. CHINDBLOM. I say I presume our fire insurance business in this country compares favorably with any business in the world?

Mr. EVANS. Oh, yes. This is the greatest insurance field there is in the world.

Mr. CHINDBLOM. So I understand. And notwithstanding that, we have not broken into the foreign field much, have we?

Mr. EVANS. No; for two reasons: First, because the laws of this country are so restrictive it has been about all the American companies could do to take care of their liabilities in the United States, and the field has been so fertile that the cultivation of this field has brought better results than any possible cultivation of the European field. The European companies are well entrenched and it means a fight, probably, to get their business. Several companies have tried in the past to do business direct in England and they have not succeeded in getting it and have given it up.

Mr. CHINDBLOM. On the other hand, foreign companies do a lot of fire insurance business here, do they not?

Mr. EVANS. I think that 60 per cent of the premiums in the leading British companies are taken from the United States.

Mr. EDMONDS. In fire, or fire and marine both? You mean just generally?

Mr. EVANS. Their entire premiums; their entire fire and marine business.

Mr. EDMONDS. Of course a great deal of that would be marine business?

Mr. EVANS. Well, the marine business is not as large, you know, as the fire business.

Mr. CHINDBLOM. Would more than half of that be marine business?

Mr. EVANS. Oh, no.

Mr. EDMONDS. Mr. Evans, we had quite a discussion here yesterday on the reasons why we lost all our hull insurance and also about the builder's risk insurance. Your companies write both hull and builder's risk?

Mr. EVANS. Yes.

Mr. EDMONDS. Are you doing much hull business now?

Mr. EVANS. No.

Mr. EDMONDS. It was stated here yesterday that while the British had advanced their rates on hulls three separate times recently, they have not advanced their rates on American hulls at all. Do you know whether that is correct?

Mr. EVANS. I only know from hearsay, and I have been told that is the case.

Mr. EDMONDS. That is the reason, of course, they are getting our hull insurance and amortizing the losses on that by charging more to their own ships?

Mr. EVANS. Yes.

Mr. EDMONDS. It is rather a peculiar situation. I presume they intend to make it up at a later date.

Mr. EVANS. They probably want to drive the American fire companies that have gone into the marine business out of the field, and I think they will have some success in it.

Mr. EDMONDS. I imagine that is true from looking at the results in these questionnaires. I should say that even if the American did want to insure in an American insurance company, he would have to go hunt a bit. Some of these companies have such close affiliations with the English companies and reinsure so much with the English companies that a goodly proportion anyhow becomes meat for the English insurance companies?

Mr. EVANS. Yes. As much as 90 per cent, I am told, or 92 per cent, of the reinsurance.

Mr. EDMONDS. Yes; and some of that, from 60 to 70 per cent of it, in English companies.

Mr. EVANS. Yes.

Mr. EDMONDS. I did not want to interrupt you. Would you like to put that pamphlet of yours in our hearing?

Mr. EVANS. If you want we to, sir.

Mr. EDMONDS. Would you like to put a part of it or all of it in?

Mr. CHINDBLOM. Before you answer that question, let me ask is there anything in that pamphlet which might require revision to bring it down to date, or is it of such a character that it would be of general interest and importance now?

Mr. EVANS. I think it would be now.

Mr. CHINDBLOM. Without change?

Mr. EVANS. It bears merely upon a situation, not so much upon specific conditions at any particular time. My effort was to point out the fact that our marine insurance was controlled by foreign companies and that there was no reason for it, because there was plenty of capital here, and that we could not succeed in building up a world trade unless we had our own insurance companies.

Mr. CHINDBLOM. Mr. Chairman, in view of the apparent popularity of this document, I would suggest that we have it put into the hearing.

Mr. EDMONDS. I would think so. It gives it wide publicity, and I have no doubt but that it would be of interest to people who read the hearings.

Mr. CHINDBLOM. I much regret that I am not familiar with it.

Mr. EDMONDS. I am not familiar with it all. I started to read it on the railroad train the other day going home and before I got through somebody interrupted me and I could not finish it.

(The pamphlet referred to is as follows:)

THE VITAL RELATION OF INSURANCE TO BANKING AND SHIPPING IN THE WORLD'S TRADE AFTER THE WAR—AMERICA FORE.

(Addressed to bankers, capitalists, shippers, and producers of trade commodities.)

[Submitted by Henry Evans, president American Eagle Fire Insurance Co., Continental Fire Insurance Co., Fidelity-Phenix Fire Insurance Co., 80 Maiden Lane, New York City.]

The matter herein presented is, in its whole aspect, the future of world's trade at the conclusion of this war, from the standpoint of insurance opportunities. At that time the United States will probably be the largest creditor nation, possessing the greatest resources in immediate sight for conversion and realization, and for the first time in more than half a century will have in hand a merchant shipping sufficiently large to enable American business interest to carry in its own bottoms much of the vast commerce that will be immediately released for the rehabilitation of the exhausted nations.

The economic proposition at the base of the foreign trade of every nation is the union of banking, shipping, and insurance strength. In the absence of any one of the three the other two factors will be exposed to weakness that will inevitably bring waste or loss, if not failure. Great Britain has commanded the foreign trade of the world because she has financed it herself, carried it herself, and protected both its credit and its losses by insuring every dollar of her own trade, when possible, with her own insurance. Germany, before the war began, was enormously extending her foreign commerce by exactly the same means. Behind German banking, shipping, and insurance stood the whole financial power of the Imperial Goverment. In Great Britain it is the other way around. There the great banking, shipping, and insurance interests in every trading port of the world stand behind the government at home. Japan, which is taking advantage of the war to enlarge her commerce, is following the German plan, with her insurance facilities not yet fully provided, but depending largely for them on her British ally, although a great share of it comes to America, if it is American business.

The above are facts, not suggestions. It is not the purpose to present arguments herein so much as to set down facts which will yield their own suggestions for consideration and suggestions which may develop into facts.

Chief among the latter is the suggestion as to the attitude of the various nations toward world trade at the conclusion of the war, whether or not that be far distant. You will have noticed that in his answer to the peace note of the Pope, President Wilson has in positive terms, as far as diplomatic restraint permits him to say it, laid down demands for a world democracy of trade in open international competition. Here is his proposition:

"Punitive damages, the dismemberment of empires, the establishment of selfish and exclusive economic leagues we deem inexpedient and in the end worse than futile; no proper basis for a peace of any kind, least of all for an enduring peace. That must be based upon justice and fairness and the common rights of mankind."

Comments upon this program by the associates of the United States in this war have been very guarded. In all matters of trade and foreign enterprise we know that England stands always firmly upon her centuries of experience, which she applies without sentiment but with energy, courage, and tenacity. What she determines to do with respect to world trade after the war will go far toward fixing the status of the competition. Great Britain's experience and long-

established connections in world trade suggest that she will continue the leading competitor the moment peace opens the doors to trade resumption. Her political and trade statesmen alike have been studying the problem from the attitude of final peace under the financial burdens imposed by the war. Lord Cromer, the greatest British fiscal administrator, discussing the necessity for revenue after the war—the necessity for which increases daily—said a year ago that free trade would have to yield its objection to a general tariff to the political necessity for the colonies to be brought into closer relations with the Imperial Government through a preferential treatment of their products as against those of outside nations. Said he:

"Such a tariff, or something very like it, will now have to be created for revenue purposes. It will be quite impossible to meet the whole of the heavy burdens thrown upon us in consequence of the war by a resort solely to direct taxation."

The inevitable suggestion is that Great Britain will make an experiment in tariff for revenue only with preferences to her colonies, which will have some effect as a protective tariff against other nations. With that exception, Great Britain expects to continue her trade policy of centuries, and none of her authoritative statesmen in commenting on President Wilson's peace note has traversed the general proposition of Lord Cromer.

To the extent of a general tariff with preferentials it is suggested that Great Britain will approach the conditions of foreign trade that will exist in the United States when the protective tariff that has been revised downward can come into free play. This tends to bring the two great democratic English-speaking nations into competition under terms somewhat comparable.

If they had only each other to deal with, then national American political policy could address itself solely to the task of enabling the enormous productive and commercial resources of the United States to qualify for the competition that would ensue. But the competition will not be so confined.

German economists are planning no less actively than those of Great Britain. There, it might be thought, the planning would hinge upon the character of the peace that will be reached. But, so far, all of Germany's productive and business activities have been conducted on the basis of paternalism, with the Government in the attitude of a trust to furnish the needed support, which is always forthcoming when adventurers into business fields can show competent management and good prospects. Considering how Germany has prospered and how enormously its foreign trade had grown in the past 40 years, the suggestion is natural that whatever changes of political form come with peace German statesmen and the German people will continue their government-backed financial policy in their foreign trade. Japan seems to be imitating that policy, increasing her banking facilities abroad, enlarging her shipping, developing her insurance, establishing new manufactures and productive industries—preparing for every eventuality while the rest of the world is busy with war.

Here we have the four main competitors lined up for the future world's trade: Great Britain, the best equipped; the United States, with vast potential strength; Germany and Japan on very different lines. However the war may conclude, nothing can remove the popular necessities or long restrain the national demands of these four countries, not one of which is in decadence. It is reasonable to expect, therefore, that with her unrivaled experience and connections Great Britain will be in an attitude to influence largely the terms of trade competition, subject to modification by the power of the centralized and paternalistic governments of Germany and Japan. The ultimate control would, then, it would seem, lie within the province of the United States to command, with her incalculable wealth and productive powers in full action. It is the great opportunity of history, not to be overlooked.

Already there are signs of preparation for extending foreign trade for the United States, about which you are probably better informed than I, since they refer particularly to the selling, banking, and shipping ends. For instance, the announcement by the American International Co. of a new subsidiary to engage in the exportation of steel and its products. It comprehends the establishment of offices at London and Buenos Aires at first, with others to follow in the principal ports and cities of the world. Dow, Jones & Co. explain its purposes:

"The new corporation intends to develop a foreign selling organization so that this, combined with its financial and shipping connections, will bring the foreign buyers and the American steel manufacturers into much closer relations than have existed heretofore."

Unless American insurance accompanies these other facilities it is inevitable that every ton of the steel exported and the exchange cargoes returning will pay toll to foreign insurance interests that will comb out profits in close competition. At equal rates the mere holding of insurance premiums in the United States will fertilize the export business and to the extent of their volume compound its strength, besides imparting a national spirit of independence to Americans scattered abroad that will cultivate respect for and fear of American influence, so much needed to support an international trade. It is strongly indicative of the truth of what I say as to the necessity of preparing to proceed with banking and insurance that the New York University has established a series of lectures to be given by practical men to the students on the subject of marine insurance.

In the midst of the war we find England and Germany planning for great post-war shipping enterprises. The Americas, publication of the National City Bank, says of them:

"The real problem, as men who are in touch with what is being done with building the new mercantile navy now see it, is to provide for the time of peace after the war, when a very important element in the international contest for commerce is going to be the organization of systems of navigation along national lines. England and Germany are both preparing for this. Germany has recently announced a policy of subsidy to encourage rebuilding of merchant ships. * * *

"There is reason for believing that the British shipping interests hope for Government cooperation in a program of large dimensions in which the cargo-seeking 'tramps' of 10,000 tons deadweight capacity, which shipping experience calls most economical for peace-time trade, and giant steamships (or motorships) running on regular lines and advantaged by having preference and privilege in a system of harbors strategically placed in all parts of the Empire, will first serve the behests of British commerce.

"In England it is predicted that our development of future shipping is to take the form of regular lines of great, fast steamers and of special fleets owned by single corporations and combinations of them which will be used as delivery system, perhaps offering some public service also. We do not do much with the 'tramps,' in English opinion."

The article also explans and discusses the school of instruction that is preparing officers to command the emergency fleet now constructing for war-time operations, which will be the nucleus of American merchant shipping after the war.

Similar preparations are being made both in Great Britain and Germany to provide the insurance protection that they know by experience is so necessary to the protection of banking and shipping. The Insurance Field, of Louisville, a leading paper in the insurance trade, has the following news in connection with a warning to American underwriters to organize for ocean marine business:

"The importance of the ocean marine business must not be underestimated. It conserves and protects all the rest and is the very ark of the covenant of all foreign trade of every country—without it trade withers. In the past half a dozen years there has been a steady absorption by British fire, life, and casualty companies—and most big British companies write all these—of the marine companies of the Kingdom. Since the war began the Scottish Union & National has purchased the Maritime; the North British & Mercantile has purchased the Ocean Marine; the Northern has taken over the Indemnity Mutual Marine; the Phoenix of London owns the Union Marine; while the London & Lancashire—which already owns the Reliance Marine and Standard Marine—has this year acquired the Marine of London. With the Royal owning the British & Foreign Marine, the Yorkshire possesing the London & Provincial Marine, it will be seen that Great Britain's far-seeing business statesmen are getting ready for the great business contest."

[NOTE.—There may be errors as to individual ownerships in the list, but the whole substance of the stateme nt is entirely true.]

It may be added that other mergers and purchases are now in process of negotiation in England.

The Munich Neueste Nachrichter, a leading German newspaper, gives the following summary of what German capitalists are doing, with similar ends in view (translation in the Journal of Commerce):

"German insurance has been able to maintain itself during the three years of war without the aid of moratoria or similar protection, and is at present

actively engaged in fortifying itself for the struggle after the war for the covering of all German requirements for insurance without recourse to the international market or, at any rate, to enemy countries.

"In transportation insurance the insurers have long ago deduced for the economic measures adopted in enemy countries the necessity of so strengthening their position as to be able to take the largest risks independently of the international market. Hence, the new foundations, especially in the seaport towns—Hamburg, Bremen, Lubeck, Stettin—and the amalgamations, partly in the form of complete coalescence and partly in the looser form of community of interests. In either case the motive is extension of business and reduction of outlay, as well as the desire to secure the support of a larger concern.

"The same tendency to expansion also manifests itself in the insurance of goods. Furthermore, a large number of fire insurance companies, having increased their guaranty funds, are devoting themselves to transport insurance, while many transport insurance companies are adding fire insurance to their activities. By the most inconsiderable increase in the number of insurers in both these branches, the possibilities of German insurance business are enormously extended, and German insurance is thereby made independent of the international, and especially of the English, market.

"The movement for the expansion of German insurance has led shipping and trading circles to think of uniting individual insurers into an organization similar to Lloyd's in London. Whether this scheme will be realized remains to be seen. More welcome, because more in accord with actual requirements, is the new venture started on June 1, 1917, for providing shipping intelligence, which is another practical expression of Germany's desire to free herself from London.

"In fire insurance similar tendencies toward fusion and amalgamation, as well as the augmentation of guaranty funds, are observable."

Conditions after the war having been suggested for your consideration, it is proper to turn to the potentialities of the United States for entering upon the world's trade and controlling a share of it in every way commensurate with our productive and distributing capacity. Of production there is, for conditions likely to exist for the future, practically no limit. Our distributing capacity, which implies exchanges, will be exactly what the business genius of the country, aided by adequate laws, makes it. We must assume that political genius will cooperate with business genius and as far as possible provide laws that will give freedom to American enterprise in establishing American competition in every quarter of the world where our products can be exchanged profitably for those of other countries.

First of all, our distributing capacity will depend absolutely upon the union and cooperation of American banking capital, American shipping and American insurance. All these must start together, continue together and grow together until like the Britons and Germans, American merchants and traders can, wherever they go for business, find near at hand the support of American money and institutions and the backing of American national pride under the flag. No American who has traveled, or who has had in his business to meet foreign competitors, can have failed to recognize the national spirit of Britons and Germans which everywhere brings them to the support of their own business enterprises and institutions as against all others. Under equal conditions everywhere they give their business to their own national. This is not true of Americans—not that they are less patriotic, but because they can not be assured of American support and the presence of American representatives everywhere, and so Americans learn unconsciously to depend upon other facilities that they know are world-wide in existence. As the British speak our language and are most nearly allied with us in their traditions, it has followed that Great Britain has largely been the financier of Americans in foreign countries, has carried our commerce overseas, and furnished our insurance to a large extent even in this country itself—almost wholly in the foreign carrying trades. Other nations and ourselves get only the excess of this and usually the unprofitable part.

You are yourselves entirely familiar with the banking resources of the United States and know how they may be extended in trade pathways. On the shipping question you can command the views of experts. I only suggest that, as the Shipping Board has wisely resolved to construct all-steel ships for the war emergencies, the end of the struggle will find the United States in possession of a merchant fleet that can be put to immediate use to build up our world's trade. If we are not prepared to precede it and follow it with

banking and insurance facilities, not only will the fleet be dispersed at a great national loss, but all the potentialities of the national wealth and energy that can be employed in world's trade will be lost with the fleet.

We are now practically pledged to the investment of $21,000,000,000 in the war, of which one half will probably be repayable as loans. The other half will be a financial waste unless the military and naval power that it builds up for us is to be accompanied by the extension of national trade. You know quite well if the United States is merely to wait patiently for the repayment of her loans to other nationals, that repayment will surely be made out of profits they make out of us in our own trade, or out of trade that will be theirs merely because we resign it to them without an effort to control it. As a business proposition we might better afford to lose the loans than to resign the enormous values in a world's trade. Without speculating at all upon the probabilities of the migration of populations after the war, we must face the problem of an enormous increase of population in the United States in the next generation and must lay the foundations for employment and support of more than two hundred millions of people, the working factors and productive capacity of which are increasing steadily through the entrance of women into all avenues of occupation. And we must take care to make that great industrial population the best rewarded in the world. This is going on elsewhere amongst all our competitors, and the United States can not without disaster attempt to remain stationary or even merely to hold her own. These suggestions are offered because as business men we must look to the future before the problems that will surely arise shall force themselves upon the unprepared attention of those responsible for governmental policies. If business does not pioneer the way for liberal laws such laws will not be enacted.

My main purpose is to put before you the opportunities and ramifications of insurance capital in the world's trade. It fulfills the very vital purpose of protecting and stabilizing the banking, commercial, and shipping factors.

It is well known that the English banks in South America and all over the world, appreciating the necessity of insurance as a complement of banking and shipping, established for themselves a ready market with which to provide this insurance to those with whom the banks did business. A limited underwriting facility for marine and fire insurance (limited in conditions, but not in amount), was given to these branches of the London banks by the insurance offices in London, and when loans were made on property, let us say, in South America, they were made upon the condition that the banks should furnish the insurance. Say, for example, a man requested a loan on standing crops; this was made by the bank and the fire insurance policies protecting the loan issued by the bank, and the marine insurance when the grain was exported also issued by the bank. Thus it has occurred that many branch banks do a large and profitable business in insurance as well as in banking, and they have the advantage at the same time of knowing that their insurance is properly secured in responsible companies. We have never, up to the time of the war and the time of the extended foreign interests of our own banks, been in a position to induce American underwriters to enter these fields, because there have been no branch banks with whom they could affiliate except foreign branch banks. Now that the American banker is going into the foreign field he must take with him his American insurance companies, and the American company is not loath to enter this field if it can have with it its complement, the banking institution.

Insurance furnished by competitors can be used to comb the profits out of any trade. It has recently been done in the present war emergency. American companies having outstanding contracts with shippers to furnish ocean marine insurance found themselves deprived of reinsurance facilities by the President's proclamation forbidding such transactions with German companies. In the absence of sufficient American marine insurance the German companies were strong enough to furnish needed competition for American business against British companies. Immediately this German competition was prohibited, American companies seeking cover for large lines had to rely upon British companies for reinsurance. These at once quoted prohibitive rates, in one instance of which I was informed, as high as 10 per cent, where the contracts of American companies were based on a rate of 2½ per cent. This was followed by an advance of 10 per cent on all English hull insurance written in London. When the American Association of Marine Underwriters proposed that the same advance be made on American hulls written in New York and London markets (to compensate in part for the greatly increased cost of repairs) the London board of control declined on the ground that it was

"inexpedient." Yet at the same time American shipowners could, it was credibly stated, get lower rates on hulls by going direct to British offices in London than they could get from those same companies through their American branches. The result was that considerable hull business was transferred to London at a loss to American offices and interests. This was done at a time when the shipping involved was rendering important service to Great Britain and her allies, and so indicated the undeviating business purpose to prevent the growth of marine insurance in the United States.

These instances of control against our interests could not have been carried through but for the fact that Great Britain possessed the banking and shipping facilities that rendered the use of her insurance not only desirable but profitable. Without the use of all three the use of one may be had only at rates just less than prohibitory, if not entirely so. I am not criticizing the British companies for controlling the business, but quote the fact in illustration of the power of insurance for national protection wherever it can be exercised—both in peace and war.

There are no available statistics of ocean marine insurance. The great bulk of it has been written by British stock companies and by individual underwriters at Lloyds, London. There the details of such operations are trade secrets, reports, if any, being made in confidence subject to test by a committee of the Board of Trade and by audit of Lloyds. Thus their volume is a business secret in the keeping of business committees, and combined trade balances only are made public. For similar reasons there is an absence of analytical reports of the insurance of most other nationals. In the United States comprehensive statistics are kept by most classes of the business transacted in this country. But even here the inland marine transactions are combined with the ocean marine, so there are no specific returns of the latter. In the United States for the past three calendar years the combined inland and ocean marine premiums were reported as follows:

1914	$32,114,926
1915	47,418,071
1916	70,663,999

[NOTE.—These figures apply only to business written and reported to New York. Marine underwriters estimate a volume of premiums equal to one-third of those reported as being written abroad on American business by British and other foreign companies and Lloyds admitted to do business here, but making no reports of the same here and thus avoiding taxation. The law can not reach out and require compliance in Europe. With that estimate addition the approximate actual figures would be for 1914 about $43,000,000, for 1915 about $63,000,000, and for 1916 about $94,000,000.]

These increases represent the increased values and rates of American business carried during the war. An analysis of the premiums reported and unreported distributes them as follows:

	Number.	Reported.	Unreported.
1914			
American companies	23	$18,974,216	.....
British companies	19	8,808,245	$9,634,478
Other foreign companies	13	4,332,465	1,070,497
Total	55	32,114,926	10,704,975

	Number.	Increase.	Reported.	Unreported.
1915.		*Per cent.*		
American companies	23	48	$28,071,557	.....
British companies	19	45	12,851,204	$14,225,421
Other foreign companies	13	50	6,495,310	1,580,602
Total	55	.....	47,418,071	15,806,023
1916.				
American companies	23	47	41,208,085	.....
British companies	19	38	17,712,774	21,199,200
Other foreign companies	13	82	11,743,140	2,355,466
Total	55	.....	70,663,999	23,554,666

When the amount (one-third) of unreported business written by foreign companies is considered it will be seen that the premium increase of British companies was far greater than all the others.

It will be noted by casual analysis of these figures that American companies write a little more than half the United States marine business, and, when the unreported writings are considered, less than half. This has been due to the lack of American bottoms and lack of prestige of American insurance connections abroad. There is more than this to be considered, however. A considerable share of the ocean marine premiums written and reported by American companies comes from the reinsurance of excess lines written by British companies abroad on great tonnages carried in one vessel. It would be quite fair to assume, therefore, that only one-third of reported American business is written by American companies—a share wholly inadequate under any sound theory of financing American business.

In a tentative way, in the absence of specific statistics, and considering normal apparent tonnages as a basis, I do not hesitate to estimate the ocean marine premiums of the world at between $250,000,000 and $300,000,000 a year. With the establishment of a sufficient merchant shipping to carry our share of the world's trade, and the expansion of banking facilities to support it, there is little reason to doubt that American insurance can divide two-thirds of the premiums with Great Britain. In other words, an annual premium of something like $100,000,000 or more—an increase to that sum from prewar normal receipts of some $18,000,000 to $25,000,000 by American companies—is to be expected as the American goal in a reasonable time, say three or five years, provided the banking and shipping facilities are supplied to create and maintain the trade. The sooner these three factors are supplied the better it will be for them and for the future commercial strength of the country. The present activity in building ships, in organizing and training the National Army, the demand on the United States for supplies that other countries need—all these are creating an atmosphere of national inspiration and pride which can and should be encouraged and made permanent for the realization of American industrial, commercial, and political supremacy. Some one nation must always be dominantly the arbiter of international requirements, as Great Britain has been for more than a hundred years. It is suggested that now is the time for the United States to begin to forge to the front, a time when, through no fault of ours, the way has been opened wide to the active brain, the strong heart, and the powerful resources of the young nation.

As far as ocean insurance is concerned there is already a large premium income secured to the proper organization when made.

But this is not all. This is only the proposition as it applies to the opportunities in marine insurance, in which large profits have always been made after allowing for the years of depression. By proper organization there is also a great opportunity in the expansion of fire insurance already created with profitable returns, having endowments of capital and asset securities already established which will serve at once to strengthen banking and shipping facilities.

The United States is the largest and richest fire insurance field in the world. Premiums collected here and in Canada (an open territory) probably exceed those of the rest of the world combined. So great and inviting is this field that all the large companies of other nations are domiciled here with independent branches for writing business direct and by reinsurance. These foreign companies numbering 80 in 1914 and 1915, and 83 in 1916, collected American premiums, fire and marine, as follows:

1914	$120,951,991
1915	127,345,691
1916	149,894,770

These are not all the premiums written here by these companies. For some years foreign companies, more particularly British, have been organizing and purchasing other companies already organized under American laws, which they operate as companies of the United States. This is done with money of the home offices, the use of which is permitted by British law although the similar use of funds is practically forbidden to American companies by the laws of many States. Such combination and interlocking is fostered by the business of Great Britain. They can not use the funds of their American branches for this purpose, but they borrow the money here or send it over and so have gradually been increasing and strengthening their hold upon American fire and general insurance. There are half a dozen such companies writing fire insurance, collect-

ing some $12,000,000 of premiums, which are reported and tabulated as premiums of American companies, whereas their net collections are ultimately covered into the foreign treasuries of the companies owning them. The annual premiums taken by foreign companies in fire insurance in the United States in 1916 was, therefore, in round figures $161,000,000.

As against this volume by 83 foreign companies, 217 American companies collected premiums of $294,242,296, less the $12,000,000 concealed under the American entitlement of foreign-owned companies. That is, of $444,000,000 of total net fire premiums collected, foreign (principally British) companies wrote 36 per cent of them. Many of these British companies have organized and are now also purchasing liability, casualty, and workmen's compensation companies and by putting into the hands of their agents general lines of insurance facilities they will be able to accommodate and supply every demand for insurance. This, if not checked or met by countersupply from American interests, will give British competition in world's trade an advantage wherever the necessities of insurance protection and banking credit arise.

These activities and extensions of British companies are thus particularly pointed out and explained not in jealousy, but in admiration, as being flexible and powerful models both for the creation and protection of British trade. The United States can not compete with Great Britain in foreign trade without means ultimately to be made at least equal in adaptability and strength.

For nearly a century British companies have been operating in the United States, most of them rendering good service to the public. They have made good profits out of it—more, usually, than the American companies make, because of their advantage in being able to operate under various forms with one overhead and directing charge (denied to American companies) added to the superior liberality of British insurance laws in general. The suggestion arises that if the British laws are admirable enough in their liberality to be sound for the protection of American policyholders, then the United States should adopt equally liberal laws and thus enable American companies to compete without handicap.

So also British and all foreign companies have greatly profited here by these sigular facts: That the United States, while enforcing with respect to its import commerce the principle of a protective tariff, has abandoned its entire home insurance fields—so rich in values and opportunities—to the principle of free trade. At the same time, under the numerous restrictive State laws for the regulation of interstate insurance (having the effect of a protective tariff on insurance between the States), American companies have been securely bound against engaging in free trade world's insurance. This in doubly economic suicide, since it prohibits us from competing with foreign countries to protect our own insurance as well as to obtain an exchange share of theirs. Yet, unless American insurance capital can accompany American banking and shipping, the extension of American commerce will be exposed constantly to serious limitation and failure.

[NOTE.—In this connection attention is called to H. R. 2316, the Webb-Pomerene bill, which has passed the House of the present Congress and is now privileged and pending in the Senate. It permits the association or joint agreement of corporations for export trade purposes without violation of the Sherman Act. It has received the approval of the Chamber of Commerce of the United States and is vitally necessary for the building up of export trade. It should be amended to include, or a separate bill should be enacted to give to American stock insurance companies exactly the same privileges after registry or license by the Federal Trade Commission, to cooperate with producing and trading corporations in the export trade and to the same extent relieve them from violation of State laws concerning purely domestic insurance.]

Now we come to the very ultimate crux of the economic proposition. American companies under ordinary conditions are now able to carry the whole of American fire and general insurance, just as we actually do our own life insurance, in which the foreign influence is not perceptible. But in years of disastrous losses, such as 1871–72, in the Chicago and Boston conflagrations, and 1906, in the San Francisco fire (when American companies were less strong), these foreign companies contributed materially to relieve the economic pressure. In 1906 they paid their San Francisco losses largely out of funds sent over from their home offices, without disturbing the funds of their American branches. It is calculated that funds to an amount between $40,000,000 and $60,000,000 were thus imported, and to that extent the great losses were immediately distributed over the world, instead of being laid upon the United States alone. The funds thus imported have since been recouped, but the burden was none the

less eased off. It was far-seeing business ability to take such a step, and the British companies acted with one accord, as they always do.

There is an undoubted economic demand for the world-wide distribution of these vast conflagration losses, coming, as they do, unexpectedly and suddenly. As long as the danger remains the means for world-wide distribution of the effects should exist. The point is, why should the United States, with its abundant capital—presenting in itself the richest fire insurance field in the world—have to resign the distribution of its infrequent disastrous losses to Great Britain at the cost of the annual exploitation of this field to the extent of nearly 40 per cent of the income from it, which is steadily increasing annually? The statistics that have been quoted above apply only to stock companies, 305 in all, and only to net premiums. In the same year these stock companies, mutual companies, and Lloyd's wrote in the United States gross premiums of about $680,000,000, of which $507,523,636 was net. It is this vast field, in which cash assets of $748,426,446 are employed by American stock and mutual companies, that is being headed toward control and has its world distribution directed by invested foreign assets here of only $217,432,715.

[NOTE.—The figures concerning American fire insurance above quoted are taken from the Spectator Year Book of Fire and Marine Insurance for 1917, the authoritative publication of American insurance statistics.]

It must not be forgotten that the United States is in return accepting and discharging its full share of such distributing responsibilities. More, perhaps, because through the volume of business written here by foreign companies the fire insurance of the world is mainly financed. "The Insurance Field," heretofore quoted, contained August 2 this statement, which errs a little, if any, on the side of conservatism:

"The London Times in a recent review of fire insurance for 1916 shows that 17 British companies took total premiums throughout the world that year of $135,600,000, in round figures. Of this total their American branches collected $72,200,000 in the United States, leaving the intake from the rest of the world, including the British colonies, South America, and the Orient, $67,400,000. That is, 53 per cent of the world's premiums of these companies were collected in the United States. The British are great world's merchants of business, and push their enterprises wherever their navy reaches and their banking and shipping influences extend. But there was collected in the United States alone in 1916 $444,000,000 in premiums."

The American premiums of these 17 British companies were probably $81,000,000, and were therefore nearer 60 per cent of their world premium than 53 per cent.

The obvious economic duty of the United States, and the opportunity of American capital is to use and direct this vast field of income for its own internal strengthening and to effect its own world-wide distribution, in which it has the greatest share, and from which good profits arise.

The establishment of ocean marine insurance in connection with banking and shipping is the open gateway to ultimate fire insurance control. With the exception of a few offices in Canada, Mexico, and Cuba, no American insurance company that I know of is represented or entered in any foreign country of the world, either for fire or marine business. It is not for lack of enterprise or talent. American life insurance companies at one time successfully contested the principal foreign countries for business. They wrote business in Great Britain, France, Germany, Italy, Spain, and Russia alongside the native companies. Hostile laws eventually compelled their withdrawal. Similarly many years ago one or two American companies undertook to establish a branch in London for British fire insurance, as the Insurance Co. of North America afterwards undertook to do for its marine department. In both instances the undertaking came to nothing for various reasons. Principal among them was the fact that the ramifications of property interests covered under fire insurance (unlike life insurance) are so involved that in the absence of banking and shipping alliances there was no way of creating business prestige, and when to this was added the unwillingness of Europeans to buy from any foreigner that which they can purchase from their own countrymen, representing their own institutions, such offices were closed, and no American fire insurance company has since been known in Europe.

With the establishment of banking, shipping, and ocean marine insurance having fire insurance powers these obstacles can be removed. In every port and center the commercial and other property connections radiate from the large shipping interests, so that the prestige of American ocean insurance

through banking and shipping would tend steadily to the extension of fire insurance to property. In that way, in time, the distribution of American losses throughout the world would come to be achieved through American channels instead of through foreign channels.

I am not attempting to intimate that these ends can be easily or quickly accomplished. They can only advance toward full accomplishment with the creation and success of the banking and shipping factors. Of the rate at which these may advance you have your own sources of knowledge. The insurance factor, will, however, hasten and tend greatly to secure the success of the others. In the meantime, by proper organization, there is already a profitable and constantly growing investment in hand in the insurance incomes already established, with assets founded upon the highest class of securities.

In conclusion, there are two practical points to be noted:

1. There is underwriting talent in the United States wholly capable of working out the aims suggested above.

2. The plan does not contemplate destructive competition with foreign companies in marine insurance rates. There would be no wisdom in such a course. Nor does it contemplate merely building up marine insurance for the profit in that activity. The purpose is to provide cooperation between American banking, shipping, and insurance that will furnish facilities capable of supplying the needs of our national interests in the colossal struggle for the world's trade after the present war. With these facilities supplied a great and steady growth is certain—without them failure in the end is equally certain.

Mr. EDMONDS. Now, Mr. Evans, have you given the question any thought as to what could be done by Congress toward helping out the situation beyond licensing?

Mr. EVANS. Well, I have. I have not come to any very definite conclusion, because I do not know how you can do it.

Mr. EDMONDS. Let me ask you a few things: The Shipping Board was given authority to supervise marine insurance.

Mr. EVANS. Yes.

Mr. EDMONDS. Don't you think that some authority, not using the information acquired for publicity, but with the idea of supervising any inequalities or calling attention to any real dangers to American insurance interests, would be a good thing—requiring statements and carrying a record of documents or agreements, and things of that kind?

Mr. EVANS. I do not know that I quite get your idea. You mean a Federal bureau here that will license and keep on file——

Mr. EDMONDS. License; and not only that, but keep on file any agreements or particular documents, or things of that kind, that would give them an idea as to whether any particular company was doing anything inimical to the interests of American marine insurance companies.

Mr. EVANS. I think so, sir. I do not think you need fear publicity, because we have 48 sovereign States that require all kinds of information, and anybody can get it; and it costs my companies a good $10,000 a month to get it up for them, and it is not worth three whoops after they get it up.

Mr. EDMONDS. The question would be this: We do not want to regulate the insurance business, of course; we are working for the benefit of the insurance companies.

Mr. EVANS. I see.

Mr. EDMONDS. And the question in my mind is whether some supervisory authority would not make the business a little more healthy by correcting inequalities or any injustice one man might do against another. The spirit of the day is not competition; it is combination.

Mr. EVANS. Yes.

Mr. EDMONDS. And in order to bring about a better feeling and in preventing any injustice there might be done, or any particular danger there might be toward American insurance interests, a bureau that would have all these documents and would look them over and see all the danger points, and call attention to that to the particular parties interested—don't you think that would be a good thing?

Mr. EVANS. Yes. Properly directed and for the purpose of helping the business, I think it would be a good thing.

Mr. EDMONDS. For instance, there are communities of interest, there are amalgamations, and there are different things of that kind. Some of them are very good for the business, and others are not so good.

Mr. EVANS. Yes.

Mr. EDMONDS. Another thing that struck the committee was the desirability of extending the Webb-Pomerene bill, or a bill of similar character, toward removing any possibility of——

Mr. EVANS. Infraction of the Sherman law?

Mr. EDMONDS. Of the antitrust law. Do you think that would help insurance along?

Mr. EVANS. Yes, sir.

Mr. EDMONDS. Providing, of course, we extended it only to purely American companies?

Mr. EVANS. Well, the insurance business is of such a character that there can never be a trust combination. There is no patent on it. It only takes $200,000 to start an insurance company, and the minute your profit is abnormal you are going to have competition.

Mr. EDMONDS. Yes; I think that is true. Yet, at the same time, take a legitimate pool, not with the idea of monopoly, but with proper provisions in that pool they should not keep out of membership some man who wants to go into it?

Mr. EVANS. That is all right.

Mr. EDMONDS. Make it free for every fellow who is responsible, instead of tying it down to three or four or five companies to handle the whole business, would strike me as a very desirable condition, because it would bring about a better feeling between the companies and a better understanding.

Mr. EVANS. Who is going to be the judge as to who is responsible?

Mr. EDMONDS. Why, under a bill like the Webb-Pomerene bill it would be the companies themselves; there would not be any Federal head or anything like that, but it would be open to a number of purely American companies or the companies to whom the combination feature was extended to get together.

Mr. EVANS. Yes.

Mr. EDMONDS. And they would appoint their own head and work together. I find at the present day when you get a lot of men together they are not quite as big rogues as you thought they were when they were not together. Very frequently you think your competitor in business is a great rogue and is playing many tricks, and when you get together you think differently, and after talking these things over once in a while you have a better understanding with them and you do not have as much trouble.

Mr. EVANS. That is right.

Mr. EDMONDS. Have you any idea of any remedy that could be suggested to prevent the exportation of insurance from this country?

Mr. EVANS. No; except as I suggested—a system of license.

Mr. EDMONDS. A system of license might help.

Mr. EVANS. It will help the situation.

Mr. EDMONDS. It might help the situation, but it could not prevent it.

Mr. EVANS. No.

Mr. EDMONDS. There is nothing to prevent it that I can see myself; as near as I can get at it, unless some of you gentlemen who are experts at the business can suggest something.

Mr. EVANS. I can not suggest anything. Perhaps some of these men who handle that line of business could tell you more than I can.

Mr. EDMONDS. The experts, though I doubt if they could and I doubt if they will. As to the taxation feature of it, I was talking with members of the Ways and Means Committee, and they do not feel very pleasant about it; they had an idea they were taxing this insurance equally, and they did not like the situation of seeing the insurance premiums run away from them and taxing on this side and not on the other. I was talking last night with a member of the Ways and Means Committee, and he thought possibly they would find some way of reaching it, but I doubt very much if they will find any way of reaching it.

As to the desirability of permitting marine and fire insurance companies to transact other kinds of business, we understand in various State laws there is a considerable limitation on the business a company might do. But it seemed to be the opinion yesterday if a company could broaden out and take a number of different lines of business, it would be a much healthier condition for the insurance companies. Is that your opinion?

Mr. EVANS. There is no question about it. I think an insurance company should be allowed to transact all kinds of business.

Mr. EDMONDS. Outside of life?

Mr. EVANS. Outside of life, if you will. The Atlantic Mutual Marine, for instance, has an old charter which I think gives it a right to do even a life business, but I do not think any of the fire companies would care to go into that line. The English companies do a like business in all of the lines. They keep their accounts separately.

Mr. EDMONDS. They even insure election bets don't they?

Mr. EVANS. Yes—well, that is Lloyds.

Mr. EDMONDS. I suppose the tax restrictions will have to be borne at the present time. Have you any suggestion along the line of tax restrictions?

Mr. EVANS. Why, no. I think the insurance companies are only too glad to pay their share of the war expense, but I think there is a special one per cent tax there on the premium income. Is not that so Mr. Reese?

Mr. REESE. Yes.

Mr. EDMONDS. Is that a Government tax?

Mr. EVANS. A Government tax.

Mr. EDMONDS. Then you have your State tax on premium incomes don't you?

Mr. EVANS. Yes. Our taxes to-day are running pretty close to 10 per cent.

Mr. EDMONDS. On your premium income?

Mr. EVANS. Yes.

Mr. EDMONDS. On your gross premium income?

Mr. EVANS. Yes; a great deal more than our profit. My company take the Continental, it has been one of the successful companies in the business, it shows an average earned premium profit of 5.53 per cent for a series of years.

Mr. CHINDBLOM. For how many years?

Mr. EVANS. Thirty.

Mr. EDMONDS. Then you must have advanced your premiums in order to meet your taxes have you not?

Mr. EVANS. We put 10 per cent on to cover the extraordinary expense connected with the conduct of the business at this time, not merely the taxes, but the increased postage which is a very large amount with us.

Mr. EDMONDS. And wages?

Mr. EVANS. Wages; and then repairs to buildings that we had negotiated at the old rates for which we could not get anything extra on. But the commissioners at a recent convention that they held became very much excited and they forced that off. Now I think the business was better during the war because the moral hazard was greatly reduced and when men are making money they do not want to burn and they watch their properties more closely. And then I was chairman of one of the War Industries Board committees here that had to do with the fire protection facilities connected with factories that were engaged in the output of war materials. There were 14,000 of those factories under this division of the War Industries Board and we had the power to order improvements made and they were made. I think that had a good effect; I think it reduced losses so that the companies probably have made good money during the last three years.

Mr. EDMONDS. That is very good. Then they took it away from you in the excess profits tax?

Mr. EVANS. Yes; still——

Mr. EDMONDS. You had the pleasure of making it?

Mr. EVANS. You can look at it for a few minutes.

Mr. EDMONDS. We have a memorandum here of the British practice of allowing marine insurance companies to operate with a part paid up capital. I do not suppose such a thing as that is possible in this country?

Mr. EVANS. It would not do in New York State, because the insurance companies come under the law of financial institutions and we have to put up the money.

Mr. EDMONDS. Now, the board of underwriters in New York brought to our attention the fact of a load line. There seems to be rather a peculiar situation in regard to the load line. The shipping men do not seem to want a load line and the insurance men all seem to want it. The principal opposition of the shipping men seems to come from the coastwise people. Would the establishment of a load line stabilize insurance to any extent?

Mr. EVANS. I can not answer that, sir, with any authority at all, because I do not know enough about it.

Mr. EDMONDS. It seems to be the general impression among the insurance men that the establishment of a load line would be a good thing on the ships, in that it tends to increase the safety of the ship-

ping. And I presume the reason the insurance men would like to have a load line is because it would reduce the losses. I am dividing it up that way to know whether it was in overseas shipping particularly that a load line was needed, or whether it was more needed in the coastwise traffic.

Mr. EVANS. That is a technical question that I can not answer. I only know by coming in contact with the marine men that they all favor a load line; that is, the marine underwriters.

Mr. EDMONDS. The marine underwriters?

Mr. EVANS. Yes.

Mr. EDMONDS. There seems to be quite a fight between you and the shipping men as to whether they should have a load line or not. Up to the present date it seems the shipping men have succeeded in keeping it off?

Mr. EVANS. Yes.

Mr. EDMONDS. Mr. Hurley raised the question about the Government insuring part of the hull risks in connection with the sale of ships by the Shipping Board. From what we heard yesterday it might be well for the board to start an insurance company and do all of the hull insurance.

Mr. EVANS. Yes.

Mr. EDMONDS. It seems to be very evident the American companies are unable to prevent the premiums on hulls going to England. They either have not the desire or the ability to prevent it, or they can not afford to take the financial loss coming from it. It may be one or all of those; I do not know. But Mr. Hurley was very much in favor of that proposition. Naturally, I am not in favor of Government ownership; but if the situation is going to be such that the English believe they can take these premiums out of the country, I would not be surprised if we did not have to resort to some such remedy to help out the situation until they are satisfied to make the same rate for American hull insurance that they do for their own.

Mr. EVANS. There is only one way to bring the English to terms, and that would be to fight them.

Mr. EDMONDS. That would be fighting them, you know.

Mr. EVANS. I know; but I mean the American companies; if we can get enough of them together to go abroad and put into effect rates that will hurt the English in their own business, why, then, we can bring them to terms. You can not do it in any other way. And I stand ready for my companies to take a considerable loss to bring that about.

Mr. EDMONDS. There have been several communications made to the committee—and there has been reference to it here—in regard to some method of seeing that American shippers in foreign trade arrange standards in some way for their packages so there will be less loss; in other words, to pack their goods properly so there would be no damage to the goods on account of not giving the packing proper care and putting the goods in proper kinds of packages. Have you any idea how that can be done?

Mr. EVANS. No, sir; I have not. As I say, I am not a marine underwriter, and I do not know anything about those details.

Mr. EDMONDS. Still this is practically a good big-sized question, and it would mean a reduction in losses to insurance companies. I just thought I would ask these questions as we went along.

Mr. EVANS. I do not doubt it is a move in the right direction, but personally I have no information on the subject except such as has come to me through general talk. I am not in a position to give advice.

Mr. EDMONDS. Some gentlemen have made a suggestion also that we establish a salvage organization around the world, taking these wooden ships built by the Shipping Board and putting them on a mud flat somewhere, as a salvage organization, so that they would not sink but keep above water, and the Government provide the crews and have repair shops on board, so as to cut down the cost of insurance.

Mr. EVANS. From what I hear of the wooden ships built by the Government, that would be a mighty good use to make of them.

Mr. EDMONDS. It would be rather expensive, and I am very much afraid you would not give very much reduction in the price of insurance on account of having this salvage organization around the world. I have covered pretty near all the questions I have to ask, and I want to go a little bit more into the legislative features to-day, and I am trying to propose these things we have had suggested to us, in a number of different ways, so as to get the opinions of the witnesses as to what would be the better thing to do in regard to the legislation we want to bring out in order to help you along. Now if you have anything more to say on any line we would like to hear you.

Mr. CHINDBLOM. Right there, Mr. Chairman, question number 17 in the questionnaire related to suggestions for the promotion of the American marine insurance business, and your companies, at least some of them, made quite full answers to that question.

Mr. EVANS. Yes.

Mr. CHINDBLOM. It occurs to me that perhaps you would want to say something along these lines for the record here?

Mr. EVANS. I do not know that I can say any more than was put into that answer.

Mr. CHINDBLOM. Mr. Chairman, the answers are not to be published, as I understand it, but these suggestions—I think you have a copy of them—are rather concrete.

Mr. EDMONDS. These will be published.

Mr. CHINDBLOM. The answers to the questions in the questionnaire?

Mr. EDMONDS. Oh, no.

Mr. CHINDBLOM. We have here a pretty full digest of the answers of these companies on this question and it might be well to put that into the record.

Mr. EDMONDS. You mean the suggestions made in these two pages?

Mr. CHINDBLOM. Yes.

Mr. EDMONDS. These are the suggestions made by these companies in that questionnaire. Mr. Evans. Suppose you submit those, and we will put them in the testimony.

Mr. EVANS. All right, sir; here is a copy.

Mr. EDMONDS. Suppose you read those.

Mr. EVANS. I will ask Mr. Reese to read them.

Mr. REESE. (Reading):

Legislation should be passed having the following results in view:

I. The building of sound and seaworthy ships.

II. The operation of ships by efficient officers and crews.

III. The proper packing of merchandise and proper loading of vessels.

IV. Expense of operation to be such as to allow competition with foreign countries.

V. Protection of American marine insurance market.

The following legislation is suggested:

1. A bureau of marine affairs should be created in the Department of Commerce, which bureau should have jurisdiction over all marine matters, including the various marine matters now scattered through the Departments of Commerce, Treasury, Labor, and War.

2. The American Bureau of Shipping should be recognized by law, with authority to formulate proper rules for the construction of vessels and the granting of certificates to all vessels built in accordance with their rules and under their supervision; to inspect the material to be used on vessels, and to put a load line on all vessels.

The bill to establish load lines introduced by Senator Fletcher (S. 575) should be enacted amended as follows:

At page 2, line 18, by omitting the words "or such other corporation or association," inserting in place thereof the words "composed entirely of American members representing American interests"; and by striking out the clause beginning on page 2, line 23, with the words "*Providing, however*," and ending on page 3, line 2, with the words "the Secretary of Commerce may approve."

3. The recommendations of the international convention for safety at sea should be adopted.

4. Rules should be adopted—

(*a*) Governing the handling and loading of explosives, inflammable, and dangerous cargoes.

(*b*) Governing deck loads.

(*c*) Governing navigation and operation of vessels.

5. Statistics now collected in reports of the Commissioner of Navigation and Supervising Inspector General, now arranged chronologically, should be rearranged as follows:

(*a*) Masters' and engineers' book arranged alphabetically, giving a list of every pilot, mate, and engineer, with a complete record.

(*b*) Shipowners' book, giving list of vessels owned and record of accidents also arranged alphabetically.

6. A law should be enacted providing for a standard form bill of lading fixing the liability of carriers for shipments by water, and making it unlawful to contract away this liability.

7. Marine insurance should also be regulated by and be under the supervision of the Department of Marine Affairs, and a law enacted prohibiting the placing of marine insurance in nonadmitted companies, or with foreign offices or branches of foreign companies, or with American branches of foreign companies, unless the policies are written or recorded in this country, which insures that they bear their just proportion of the taxes, except on the filing of an affidavit that the party desiring the insurance, after diligent effort, was unable to procure the amount required to protect the property owned or controlled by him from insurance corporations duly authorized to transact business in the United States, and in such a case a tax of 10 per cent fixed. The penalty for violation of this law should be at least $500 for every offense.

It has been brought to our attention by various average statements that an enormous amount of hull insurance is written in foreign alien companies not admitted to do business in the United States, and in foreign-alien offices of companies admitted to do business in the United States, on which business there is no tax paid to either the Federal or State Governments. We will be glad to submit detailed evidence of the above fact to this committee if it so desires.

8. The Federal revenue bill should be amended by striking out the provision which requires marine-insurance companies to pay a 1 per cent premium tax, the marine companies now having to pay this tax in addition to all other taxes imposed on classes of business other than insurance.

Mr. EDMONDS. Is there any further suggestion you want to make?

Mr. CHINDBLOM. Mr. Chairman, this last proposition seems a little startling that the marine insurance companies are required to pay a 1 per cent premium tax in addition to all other taxes imposed on classes of business other than insurance. That applies to other forms of insurance, does it not?

Mr. EVANS. It does; yes, sir.

Mr. CHINDBLOM. Not only to the marine insurance business?

Mr. EVANS. All insurance companies pay that 1 per cent premium tax in addition to the regular Federal tax.

Mr. CHINDBLOM. You recommendation would go further than the marine insurance on that proposition?

Mr. EVANS. Yes, it would. The limitation was probably put in here because it was thought this committee was only looking after the marine insurance.

Mr. CHINDBLOM. Oh, yes; but if the revenue law was amended it could not be amended so as to relate only to marine insurance.

Mr. EVANS. We would be very grateful, sir, to have it taken off in all directions. I think that is proper and fair.

Mr. CHINDBLOM. I do not mean to say it could not be, but a good reason would have to be shown if that was done.

Mr. EVANS. Yes.

Mr. EDMONDS. I think possibly it could be done, but of course the Ways and Means Committee would want to know why that particularly should be exempted, and it would be very hard to show why marine insurance alone should be exempted.

Mr. EVANS. It is the only line of business that is subjected to a flat tax in addition to the other tax.

Mr. CHINDBLOM. That is insurance generally?

Mr. EVANS. Yes; insurance generally.

Mr. EDMONDS. Probably it would be better to take it off of all insurance than to take it off of only one branch.

Mr. EVANS. Yes.

Mr. CHINDBLOM. Except for the enormous deficit right now in the resources of the Government to meet current expenditures.

Mr. EVANS. That we are not responsible for.

Mr. EDMONDS. Now, Mr. Evans, do you want to say anything more in regard to the business?

Mr. EVANS. No, sir. I would like to make this suggestion, that in back of all this effort lies the question of patriotism, the desire on the part of the people of the United States to build up their own industries. If you can instill into the public the same feeling that the English, and perhaps I can say the Germans, have been able to put into their people, why you will bring about results quicker than you will in any other way. In other words, if the American people will favor American institutions as against foreign institutions, why your problem is solved.

Mr. LAZARO. Mr. Evans, is it not a question of education mainly?

Mr. EVANS. Yes.

Mr. LAZARO. Our people are patriotic, but the trouble is they did not know much about all of this until this war broke out and we were face to face with what was going on.

Mr. EDMONDS. Mr. Hoover was very patriotic. He wanted all the insurance for the Food Control Committee placed in American com-

panies. He was assured, I presume, that it was placed there, but I question very much whether a great deal of it did not go over to England in reinsurance.

Mr. EVANS. That is just where it went.

Mr. LAZARO. As I understand the situation, England and Germany have made it their business to teach the people in the schools?

Mr. EVANS. Yes.

Mr. CHINDBLOM. It is a fact also, is it not, that their resources after all have been limited in Europe, and they had to intensify their patriotism for their economic purposes; whereas in this country nature have been pretty lavish with us up to this time, and we have had the resources right at hand and have not been compelled to economize as they have?

Mr. EVANS. That is right.

Mr. CHINDBLOM. England, for instance, has been compelled to seek trade upon the seas, and Germany was compelled to intensify her industries at home?

Mr. EVAN. Yes.

Mr. LAZARO. I think it is a question of education more than anything else to educate the people to the importance of patronizing things at home and the great business at home, and then they will be patriotic all right. But they have to understand it. The public sentiment is there, and once they understand what they ought to do, they will do it.

Mr. EVANS. You have naturally to take into consideration also the fact that the population in this country is so mixed; that is, you have a good many Englishmen here and 6,000,000 or more Germans, people of German extraction, and people from all countries of the world, from whom our population is made up. And then our institutions have been, up to within recent years, smaller than the foreign companies. The English companies were larger and stronger. That is not the case to-day, but it was the case, so naturally the English companies have done their duty in this country almost without exception. In the Chicago fire, going back as far as that, and in all of our great conflagrations. Some of them failed to stand the gaff in San Francisco; that is, they tried to take advantage of the earthquake clause and litigated the payment of losses, but they were beaten in the courts and had to pay in the end.

Mr. EDMONDS. If you have nothing more to say, we thank you very much.

Mr. EVANS. I thank you.

TESTIMONY OF MR. WILLIAM R. HEDGE, OF BOSTON, MASS., PRESIDENT OF THE BOSTON INSURANCE CO. AND THE OLD COLONY INSURANCE CO.

(The witness was sworn by Mr. Edmonds.)

Mr. EDMONDS. Give the stenographer your name and the companies with which you are connected.

Mr. HEDGE. William R. Hedge. I am president of the Boston Insurance Co. and also president of the Old Colony Insurance Co.

Mr. EDMONDS. I know you have a statement that you are prepared to give us.

Mr. HEDGE. These are just little memorandums.

Mr. EDMONDS. Suppose you go right ahead and give it then, and we will try to eat holes in it as you go along.

Mr. HEDGE. Since I was down here in August I have had this in mind a good deal, and it is very complicated when you try to make suggestions. In nearly every suggestion you make, you run up against the Constitution as to how to work out a Federal statute. Of course, as a matter of fact, this insurance is really controlled by the individual States.

There is one thing I think ought to be corrected in fairness to the English companies, and that is this: I do not think the business is sent to England because the brokers or the insured or the agents are pro-English; it is simply their natural course of business. If you go back to 50 years ago, you will find there were a large number of marine insurance companies in this country. Our old New England grandfathers were in the insurance business. They were large shipbuilders and large shipowners, and they had their insurance companies. In fact, before they had their insurance companies they underwrote just exactly as Mr. McGee showed you yesterday how Lloyd's started, where an individual generally took another individual's insurance. I have a policy at home where one of my great-grandfathers insured another great-grandfather in just that way. Now, when you had the Boston fire these green companies were writing fire business and they got tremendous losses, and a great many of them were impaired by the fire and put out of business. Others were so seriously injured that it took the heart out of the companies and gradually they have gone out of the business entirely. At the time the Boston Insurance Co. started, soon after the Boston fire, I think there were something like 20 odd companies in business—New England companies—writing marine insurance. To-day there is not one of them left. The China Mutual Insurance Co. was one of the last ones. In those days it was one of the big companies. The business in those days was the old clippership business. Our merchants were trading all over the world and they sent ships all over the world, and the business in those days was really a banking proposition. They would take the risk, and when the vessel got back from the venture the premiums were paid and the venture closed out. In fact, in the old days they used to take a 12 months' note so as to enable the vessel to make the voyage and then settle up; to-day we take a 6 months' note.

Now, with the companies practically put out of business with the Boston fire, those who were insured with the American companies on their fire risks in Boston received so many cents on the dollar in many cases. Your English companies cabled the funds right over and paid the bills right off. The result was that in the last 40 years there have been certain business men who always insisted on an English policy. They wanted the Liverpool, London & Globe, the London Insurance, or the Norwich Union, or some such company as that, because where they had had their insurance with an American company they had not gotten their money at the time of the fire. We experienced the same thing again in the San Francisco fire; the English companies paid their losses and the Germans did not. The consequence was the English companies have always

made good, and there was a lack of American capital and American companies in the business, and naturally the business gravitated to England.

Mr. CHINDBLOM. Do you know whether there was any reason, beyond the financial ability of the English companies, which caused them to pay their losses in full at both Boston and San Francisco?

Mr. HEDGE. Why, they had the money to do it and they did it; the small American companies had large liabilities, out of proportion to their assets, and they could not do it.

Mr. CHINDBLOM. It was almost altogether a question of ability?

Mr. HEDGE. Oh, absolutely; the integrity of the American companies was unquestioned.

Now, I have looked over the insurance reports to see just exactly what has happened in the last five years in regard to American insurance. You never can legislate to build up American insurance unless you so legislate that there is a profit in the business. Nobody is going to invest money in a marine insurance company for the fun of doing it; and if there is no profit in the business the money is not going to be forthcoming.

Now, in 1913 there were 20 American marine and fire and marine insurance companies; in 1918 there were 62 American marine and fire and marine insurance companies. That practically jibes with your figures. Of course, you made the point yesterday that several of these companies were English owned, which is true. I did not make that distinction; in fact, I did not have the same source of information you did in regard to stock ownership.

In 1913 the combined capital and surplus of the American marine and fire and marine companies amounted to $79,309,254. In 1918, the combined capital and surplus of American marine and fire and marine companies amounted to $249,258,113. That is almost your figures. That is, there was an increase in the capital behind the marine business of three times. That was largely due to the fact that the fire companies had not engaged in the marine business heretofore, but the large volume of premium resulting from the war risks and the fact that it was generally understood that these marine companies that were writing the business were making a good profit invited the attention of other fire companies, and they went into the business. Then you have also had a number of smaller companies start in in New York for the purpose of writing the marine business, all attracted by a profit in sight. There has been an increase in the capital of three times.

The premiums written by the American marine and fire and marine companies in 1913 amounted to $17,370,199. The premiums written by the American marine and fire and marine companies in 1918 amounted to $68,886,890—four times.

In 1913, the 20 marine and fire and marine insurance companies wrote 59.3 per cent of the business placed in the United States. The foreign admitted companies wrote 40.7 per cent of the business placed in the United States.

In 1918 the 62 American marine and fire and marine companies wrote 62.7 per cent of the business placed in the United States; whereas the foreign admitted companies wrote 37.3 per cent of the business placed in the United States.

You see the American business has been growing by itself.

Mr. HUEBNER. Those figures, of course, Mr. Hedge, do not take into account any of the foreign-controlled companies?

Mr. HEDGE. When you speak of foreign-controlled companies, what do you mean?

Mr. HUEBNER. I mean American companies controlled abroad.

Mr. HEDGE. What companies do you mean?

Mr. HUEBNER. Through stock ownership or common management.

Mr. HEDGE. It classed them as American?

Mr. HUEBNER. Yes.

Mr. HEDGE. Anything that was classed by New York State, where they are entered on the American side they are classed as American, but I really know of—I think the American and Foreign Marine is a marine company owned abroad. The Columbia, I think, is similarly owned and the Queen. Those are the only three I know of. I am not really certain as to the Queen stock, but that is my impression. Are there any others?

Mr. HUEBNER. There are a number of companies. There are at least seven that are owned and controlled.

Mr. HEDGE. What do you mean by controlled? That was spoken of yesterday.

Mr. HUEBNER. The seven are absolutely controlled or owned through stock ownership or a common management; and then there are a number of others that are so intimately related that the sympathetic relationship can not possibly be questioned although they have an American charter.

Mr. HEDGE. When you speak of the control by the English because of the connections, if you have no objection, take Mr. Chubb's company, the Federal, where there are three other companies in the office. Do you class that as English controlled?

Mr. HUEBNER. No; that is not a controlled company, but it would be very closely related.

Mr. HEDGE. Closely related—I think you would find in a case like that that is where the American controls the English.

Mr. HUEBNER. But in their reinsurance they place an enormous amount in the different companies that are represented in the same office.

Mr. HEDGE. Frankly now, they are entered for the purpose and authorized by the license of the Treasury Department during the war——

Mr. HUEBNER. They are American companies having a charter; that is true.

Mr. HEDGE. So that if a company like that you class as English controlled, I think it is improperly classed.

Mr. HUEBNER. Not as actually controlled, but very, very closely allied.

Mr. HEDGE. I think it is the English there that is controlled by the American.

Now, it is, of course, impossible to manufacture business for the benefit of insurance companies, but it is possible to see that the American companies are given preference over the foreign companies. The British merchant as a rule—this is practically similar to what Mr. Evans testified—stipulates that his insurance shall be placed with

British companies for two reasons: In the first place, the Briton is always trying to build up the business of England and, secondly, he wants his insurance with companies that he knows all about. On the other hand, the American merchant, as a rule, simply looks at the cost and takes little interest as to whether his insurance is placed with an American company or not.

Mr. LAZARO. In that connection, does not the British merchant look after the costs, too?

Mr. HEDGE. I do not think they do so closely. In fact, I was just going to read a little extract from a letter I had from the president of a New England company the other day which shows his views on that. I will read that in a minute, or right now if you prefer.

Mr. CHINDBLOM. Does the Englishman have any competition which offers better prices than he can get right in England?

Mr. HEDGE. No; I do not think he does.

Mr. CHINDBLOM. Then that question does not enter in there. If he can do as well at home and, in addition to that, his patriotism naturally leads him to do business at home, that explains the whole situation, does it not?

Mr. HEDGE. Yes; but if an American company went in and offered a lower rate, even if you shaded the rate 10 per cent, I do not think you would get the business. There is one American company over there writing business that I know of. The other company that tried it quit. Our company, that I was connected with, tried to write business in England at a profit, and we could not do it. They could get the business that the English companies did not want, but they could not get the business which was profitable.

Let me read you a little right here. This is entirely informal. This gentleman is president of a Canadian company, who has just returned from England, which might have a particular bearing on this matter, and I just made an extract from his letter:

I have just returned from a trip to England, and I only wish that the marine business on this side was in the same healthy condition in which it is over there. The high cost of everything has even extended to the marine rates and the bulk of the policies are issued at higher rates than in prewar times, and, although war-risk premiums have gone and there are a certain number of Lloyd's underwriters and new companies trying to keep up income by listening to the overtures on cut rates from brokers, yet this cheap-rate market is not a serious factor, although it may gradually become so. The English insurance brokers have not got the same control of the business in their hands as the American brokers appear to have, as they have to place the greater portion of their lines—

And here is the important point—

with companies or underwriters favored by the insured who are prepared to pay the rates which the companies or underwriters prefered by them ask. This is one of the reasons which makes it so hard for a new company to break into the English market, as probably 50 per cent of the business is given to them subject to its being placed with particular underwriters.

In my experience I have known of but one large corporation in America that has always stipulated that all of its insurance shall be placed with American companies, and that is the Beamish Bros. Bag Co. They have made that a rule of their office, that their insurance shall always be placed with an American company. Outside of them I do not know of a single corporation that takes that stand.

Mr. CHINDBLOM. If the individual corporation that desires the insurance makes that stipulation, the broker naturally will not quote to him any competitive rates?

Mr. HEDGE. He might quote competitive rates, but on an even basis the American company would get the business, or on a slightly higher basis the American company would get the business. But you do not get that to-day. The American merchant to-day will accept an English policy without any question. He does not look to see whether it is placed with the Hartford, the American Mutual, the New England, the Boston, or the Federal; he takes the policy the broker hands him who has quoted the rate. What the American public needs is to be educated up to patronizing the American companies, and your report, think, if published and well circularized in the United States is going to be a mighty good start right along that line. I think you will have a few merchants then who will start to give it consideration. You take 10 people whom you meet on the street and you ask them where their insurance is placed, and probably there is not 1 in the 10 who will know whether his insurance is placed with American companies or with foreign companies.

Mr. LAZARO. Is there an effort made by the people engaged in this business in this country to educate the business people here?

Mr. HEDGE. I think we are open to criticism there. I do not think we do, and I think we should. I think this information you give us now gives us an opportunity to do it.

Mr. LAZARO. Don't you think it should be done?

Mr. HEDGE. Certainly.

Mr. LAZARO. Don't you think that should come from your people first?

Mr. HEDGE. Of course, if we do it, it looks like it is for selfish reasons, and that merely discounts the good faith, but I think the congressional information such as this, the publishing of this information and widely circularizing it, would do more good than anything we could do in pushing it for our selfish ends.

Mr. LAZARO. What is the name of that company you just mentioned that stipulates its insurance shall be placed with American companies?

Mr. HEDGE. The Beamish Bros. Bag Co.

Mr. LAZARO. How are they going to know?

Mr. HEDGE. They are one of the biggest importers in the country.

Mr. CHINDBLOM. That is the company that always stipulates that its insurance will be placed with American companies?

Mr. HEDGE. Yes.

Mr. LAZARO. I want to know how they know that it is?

Mr. HEDGE. They are tremendous importers of burlap from Calcutta. They are one of the big houses. I was talking of fire insurance when you asked the question. I think the merchant as a rule probably knows where his insurance is placed. But in fire insurance the ordinary man does not ask about the company at all, and I do not believe there is 1 man in 20 you would run across who could tell you in what company his home is insured. They do not take any interest in it, and they can get it just as cheaply—you can insure your house just as cheaply with an American company as you can with an English company. The price is exactly the same.

Mr. EDMONDS. As a matter of fact, all fire premiums are the same.

Mr. HEDGE. Practically. Your marine rates are practically the same.

The question came up yesterday in regard to making your rates. It is all done on the judgment and experience of the underwriter. I think that is probably one reason why some of the fire companies have not taken up the marine business before, because they have not got the trained men. You have to have a man who has grown up in the marine business. When the risk is offered to the company, you have, perhaps, had a similar risk offered six months ago, and you may have written 50 such risks and you have your statistics and know what a certain line of business costs—you have been writing hides from the River Plata, subject to average, and you will know what your partial losses have cost you and what your total losses have cost you, and you will know what the business has cost. So if a man comes in and asks you to insure a shipment of hides, you look at the vessel and know it is an A–1 vessel in every respect, and you know what you charged before and made a reasonable profit, and you charge the same rate. If it is a poorer vessel, you charge him more.

Mr. EDMONDS. I listened yesterday to Mr. Rush and you, and I think Mr. McGee virtually made the same statement which was made before, that nobody made rates, but the general practice produced rates that were similar. I almost got to believe in mental telepathy after I heard you gentlemen.

Mr. HEDGE. We were all testifving to facts.

Mr. EDMONDS. Sure. But I say I almost got to believe in mental telepathy after I heard you gentlemen.

Mr. HEDGE. I noticed that you suggested yesterday certain gentlemen had gotten together the day before as to their testimony to be given here. I want to say that I have not discussed any testimony I was to give with anybody.

Mr. EDMONDS. No.

Mr. HEDGE. It was entirely independent.

Mr. EDMONDS. It was suggested to me owing to the fact that a meeting had been held and suggested answers to the questionnaire had been made, which we had before the questionnaires came in, and also that we were going to be presented with the brief, the first paragraph of which I could have read to you yesterday when you started to read it——

Mr. HEDGE. That was a committee report. We understood that you wanted an association report.

Mr. EDMONDS. Yes; we did want it, but it was rather peculiar we had it ahead of time, and also the suggested answers by the New York association to the questionnaires that were sent out by the association to the different insurance people.

Mr. HEDGE. It was very difficult to answer some of your questions, and there were certain suggestions made to different members as to how to answer them. I think—as a matter of fact I believe—we answered ours before we got the suggestions.

Mr. EDMONDS. Probably you did. Some did; others followed the suggestions fairly well. Naturally it would be supposed you had gotten together, and I wanted to save time by having one man express the sentiment of the group if that was so.

Mr. HEDGE. Shall I proceed, sir?

Mr. EDMONDS. Yes.

Mr. HEDGE. The United States Government can assist the American marine insurance companies, first, by pointing out to the American merchant the advisability of building up the American marine insurance market; secondly, the United States Government can set the example by giving preference to the American insurance companies. Before the war the United States Government had but little insurance to place, all that I know of being vessels under construction for the Navy Department. Practically the bulk of this insurance was placed with foreign companies, and no preference that I know of was ever given to American insurance companies. The Federal Government should stipulate for its departments that the American companies should be given the preference in every instance; in the second place, to those foreign companies that are entered and licensed in the United States; and, thirdly, policies should be accepted in unlicensed companies only when the insurance can not be placed in this country at reasonable rates.

When it comes to passing laws that would force an American to insure with American companies, you are taking a stand that is not exactly American, and a good many American merchants would resent it, and it is one that is very difficult to enforce; also, the object of your committee is to assist in building up and maintaining American commerce and the American merchant would probably resent any restriction of the free world-wide market that he enjoys to-day in the placing of marine insurance. I won't go into that, because that has already been taken up and the testimony shows how it goes.

Mr. EDMONDS. Of course, we never had any idea of passing any law that would require an American to insure in an American insurance company. That would be the height of folly.

Mr. HEDGE. Furthermore, by the Supreme Court's decision, no tax can be placed on exports. It would hardly be fair to the American merchant to place an oppressive tax on his insurance on imports if he is to go out and compete with the merchants of other countries for the sale of the finished goods; but it is right and it is in the interest of this country that a fair and reasonable tax should be collected on all insurances placed with unauthorized companies to an amount to equalize the tax that such insurance would contribute to the support of the Federal and State Governments if placed with American or authorized companies.

At the present time, a tax of 3 per cent is collected on insurance, other than on exports, placed with unauthorized companies. Examination of the New York insurance reports shows in 1918 that the taxes paid to the State, not including Federal taxes, on marine and inland premiums by 53 American companies (for the other companies it was not divided), were as follows: Forty-four American fire and marine companies, 2.133 per cent; 9 American marine companies, 1.841 per cent—an average of 2.084 per cent. The average State tax for all companies, fire and marine, figured up, I think, to 2.265 per cent. As a matter of fact, however, these percentages are probably lower than the true percentages, because there was an increase in the marine premiums in 1918 over 1917; also, the State

taxes were paid on premiums that included the export premiums. The real taxes should figure out, most conservatively, for fire and marine premiums, about as follows: State taxes, on premiums, 2 per cent; licenses, fees, etc., 0.45 per cent; total, 2.45 per cent. Federal tax, a 1 per cent tax on premiums, excluding exports, which, say, is 25 per cent of the business, which figures 0.75 per cent; corporation tax, which figures $1 per thousand capital, one-tenth of one per cent—giving a net result of 3.30 per cent.

Assuming of the insurance placed abroad with foreign companies that 25 per cent is on exports, and there is no way I know of for telling what proportion is on export cargo, an equalizing tax on such insurance premiums (insurance on exports excluded) would be one-third greater, which would give you a net result of 4.40, where we are taxing 3.30 at the present time. That does not take in any allowance for the tax that would be paid as an income tax or an excess-profits tax.

Mr. THACHER. May I ask for information whether those percentages are based on gross premiums?

Mr. HEDGE. No; these are on net.

Mr. CHINDBLOM. Does it include fees paid for municipal licenses, if any?

Mr. HEDGE. Yes; that comes in under your State. Your 0.45 would take care of that. For different companies they vary very greatly. It is hard to explain why there is a difference in taxes. With our company, for instance, we are entered in almost all the States for both fire and marine. Now, if we have to pay an entrance fee of $200, for doing both fire and marine, half of that is charged to marine and half of it to fire. If we are doing both classes of business, we cut that right in half and charge half of it to each class of business. The fees in some States amount to a very considerable sum. Maryland, I believe, collects a tax of $400. You see, Maryland is a compartively small State, and it amounts to quite a little tax. If you are doing both classes of business, both marine and fire, you cut it right in half and charge an equal amount to each department.

Mr. CHINDBLOM. That is, New York companies?

Mr. HEDGE. Yes.

Mr. EDMONDS. If you pay that, then they don't collect any income tax in the State?

Mr. HEDGE. Oh, yes, they do; every State collects an income tax.

Mr. EDMONDS. Besides your annual license?

Mr. HEDGE. Besides our annual license. Then you pay fees for filing your statement, and you pay a fee for the license of your agent.

Mr. CHINDBLOM. And for your examination?

Mr. HEDGE. No; for the license of the agent—simply for issuing it.

Mr. CHINDBLOM. Do you pay an extra fee for the examination of your company?

Mr. HEDGE. You do when you enter a State which you have not been entered in before—you pay a fee for the examination as a rule.

Mr. CHINDBLOM. When the annual examination is made, do you have to pay a fee then?

Mr. HEDGE. The annual examination is usually made by your home State. In fact, they do not have an annual examination.

Mr. CHINDBLOM. You send in your report?

Mr. HEDGE. Yes.

Mr. CHINDBLOM. Do they charge a fee for receiving your report?

Mr. HEDGE. For filing your report, yes. There is a fee you pay each year to each State for filing the different reports that are required. But under the Massachusetts law, where the insurance commissioner must make a detailed examination and audit of each Massachusetts company once in three years, that is charged up to the State. Occasionally you have some Western State send on an auditor to examine your books, and in those cases they generally bill it up to us.

Mr. CHINDBLOM. That is what I had in mind. I overlooked the fact that it was confined to domestic companies in the various States—that annual examination.

Mr. HEDGE. I do not know about that, whether the foreign company is examined or not. Yes; they must be.

Mr. CHINDBLOM. By the Massachusetts department, for instance?

Mr. HEDGE. These departments, in the old days, used to have a multiplicity of examinations and it was a nuisance and an expense and in fact was an imposition, and now the departments have worked it out together, so that I think Massachusetts will take a New York examination and New York will accept an examination made by Massachusetts; and in that way they have eliminated making the same examinations.

Mr. EDMONDS. The admitted foreign companies are examined just the same as you are and have the same expenses to undergo?

Mr. HEDGE. Yes; I think they do. I took 10 of the larger American companies writing a marine business, and the taxes paid in 1918 showed as follows: Average State tax, 2.45 per cent; Federal tax, 5.91 per cent, making a total tax of 8.36 per cent of the premiums written.

Mr. EDMONDS. Is that gross premiums or net?

Mr. HEDGE. That is on the net premiums.

Mr. EDMONDS. That really means——

Mr. HEDGE. It means the original premium less any cancellations, and less any reinsurance. That is, if we wrote a premium of $1,000 and reinsured a half of it, that would reduce it to $500; and if the policy were subsequently canceled and we returned $100, the net premium would be $400.

Mr. EDMONDS. How about agents' commissions; do you take that off?

Mr. HEDGE. No; that is not taken off. The English companies, I think, deduct that.

Mr. EVANS. That is admitted reinsurance companies.

Mr. HEDGE. Admitted; yes.

Mr. EVANS. Foreign reinsurance in admitted companies?

Mr. HEDGE. Yes.

Mr. EDMONDS. The unadmitted companies, of course, have no taxes at all. Where you reinsure in a nonadmitted company, they have no office here?

Mr. HEDGE. No. We pay the tax on that, and of course we do not get any credit on it. If you write a risk in New York and pay a 2 per cent tax on that and you reinsure half of that in England, we would still have to pay the 2 per cent tax in New York State.

Mr. EDMONDS. If you did that, then it would probably be offset by the saving you can get in the way of a smaller premium from the nonadmitted company?

Mr. HEDGE. In the way of reinsurance?

Mr. EDMONDS. Yes.

Mr. HEDGE. We do not figure reinsurance at a given rate. Mr. Rush testified yesterday he did that, but we never offer a risk on an American merchant at any rate other than what we have received ourselves. When we cable England, we just generally cable over the business and they fix their own rate. Sometimes it is more and sometimes it is less. On hulls it is always the same. But we do very little business with England. I think our statement showed a very small percentage. In fact, we place all that we can in this country with authorized companies.

Mr. EDMONDS. There is, however, a difference in the commissions allowed for writing for different companies—in reinsuring with different companies?

Mr. HEDGE. You mean under contract?

Mr. EDMONDS. In other words, some companies will pay on certain insurance a percentage of, say, 25 to 30 per cent, insurance possibly that did not cost here over 20 per cent. Is not that true?

Mr. HEDGE. I think it is very likely. We have no such contracts as that.

Mr. EDMONDS. There are contracts of that kind, I think, where the insurance company does profit itself by reinsurance.

Mr. HEDGE. Of course, the fire business, there is a good deal of that reinsured, because reinsurance is quite a feature there.

Mr. EDMONDS. And there is a profit to the company that does the reinsuring?

Mr. HEDGE. He gets the difference between the commission he has paid and the commission he receives, and then, of course, he has to stand any tax he has paid on that business, for which he gets no credit when his taxes are figured.

Mr. EDMONDS. And those contracts vary because some of them run up as high as 28 and 30 per cent.

Mr. HEDGE. I can not give you any information about that. In regard to the question of expenses, the difference between the expense of an American company and an English company has come up a number of times. I do not know what the expense of an English company is. I imagine that could very readily be secured by your committee through the consular department over in England; they could get you the statements. But there was a copy of the Eastern Underwriter that I happened to be reading on the train coming over, and there they quoted the expense of 18 of the marine companies of 10.7 per cent, and apparently that is on the premiums less the commission. That is, they call it the net premium after they have taken off the commission. Now, it costs more money than that to run a marine company in this country.

Mr. EDMONDS. In looking at the report of the published statements in the books that publish statistics on insurance companies it did not seem to me that there was very much difference between the expenditure, as they call it, running around 38 or 40 per cent of the English company and the American company.

Mr. HEDGE. That is a licensed English company here.

Mr. EDMONDS. Of course, that would be a licensed English company.

Mr. HEDGE. But I was referring to the question that was brought up before of the difference between the company writing business here in this country and the company writing business in England.

Mr. EDMONDS. That 10 per cent could not be their expenditure, could it?

Mr. HEDGE. No; that is on top of their commissions and all.

Mr. EDMONDS. It must be on top of their commissions.

Mr. HEDGE. Oh, yes; that is the way that is there.

Mr. EDMONDS. And that 38 per cent took in the tax?

Mr. HEDGE. That is everything.

Mr. EVANS. The tax as well?

Mr. HEDGE. Yes; and your tax is quite a large item. And, of course, clerical hire is higher here than it is in England. We do not have the large volume of business, and the minute you get a big volume of business you cut your fixed charges. We have seen that very clearly in our company. We have cut our fixed charges materially. That big premium account you can write with the same material about you that you already have in the office and you cut the amount of your salaries one-half and you cut the president's salary one-half, and so forth.

Mr. EDMONDS. That is a great advantage, then, in writing all kinds of insurance, because it gives you a chance to cut your overhead very greatly?

Mr. HEDGE. Yes; and also as Mr. McGee said, I think, London is the center of insurance of the world. It floats in from all countries, and the business that comes to them by cable they have no expense in securing it other than the commission that is allowed to the broker.

Mr. EDMONDS. That is the reason we are so anxious to get you over here now. We are the financial center now instead of London, and we want to be the insurance center.

Mr. HEDGE. We are entirely in sympathy with that point of view. Now, the American insurance companies have not been standing still. There was formed the American-Foreign Insurance Association of 17 or 18 companies for the purpose of writing insurance in foreign countries. That association of companies is at present writing fire insurance in one or two countries. I think that we have already accepted risks in Australia. I am not sure, but I think in Argentina we have already got started. If not, we will be very shortly. Then some companies are going to write marine business. We are up against a certain proposition there that I think your suggestion with regard to the Webb-Pomerene law may be a very valuable one. We are required in those different countries to put up large deposits. If an American company puts up a deposit in a foreign country, that affects their statements at home, and we have appointed a committee, I think, just to take up this matter of making deposits. We were contemplating forming a securities company under the laws of Delaware, by which the insurance companies should own the stock and which corporation in turn should loan its assets to the insurance company that entered Argentina—in other words, it would loan enough money for it to make its deposit. And instead of all the companies entering the individual fields, the proposition is that possibly one or two or three of the companies will enter Argentina,

another group will enter Australia, another group will enter Japan, and so forth. And then this business, when it is received here in New York, will be parceled out as reinsurance to all the members, according to the agreement on which we have all gone in. One took a 10 per cent interest, another a 20 per cent interest, and so forth, according to the amount the company was willing to assume. So that we are branching out now to do just exactly what you want.

But I think your suggestion last night in regard to a law that will enable us to form a corporation in the District of Columbia may be just exactly what we need in handling that situation, because it will not only give us the legal means of forming the corporation, but what we have to take into consideration at all times in connection with branching out in new classes of business is the laws of the individual States; and if we have a corporation formed under the Federal law it may be just the thing we need to overcome the objection of some local State insurance commissioner in regard to treating the deposits in that way.

Mr. EDMONDS. Would they object to an insurance company investing a portion of its surplus in a company of that kind?

Mr. HEDGE. I do not think that they would. I do not quite see how they can. Of course, that is what would be done.

Mr. EDMONDS. The surplus can be paid out by the company as a dividend at any time?

Mr. HEDGE. Oh, yes.

Mr. EDMONDS. You have your reinsurance or insurance surplus which you have to keep under the law?

Mr. HEDGE. That is the reserve.

Mr. EDMONDS. That is the reserve. Then you have a surplus which you have not paid out in dividends, but which you could pay out in dividends if you so desired?

Mr. HEDGE. Yes, sir.

Mr. EDMONDS. If that surplus was to be taken out of these companies and reinvested and held as a company investment, would that be a portion of your surplus?

Mr. HEDGE. I am more familiar with the Massachusetts law in regard to investments that way than I am with other States, naturally, and I know there is nothing in the Massachusetts law to prevent our holding stock in that corporation. Whether there is in New York or not I do not know.

Mr. THACHER. Yes; there is.

Mr. EVANS. The American companies have got to learn the foreign insurance game, and they are seeking to learn it through a combination policy. For instance, my company—the Continental, I think, is the company that has been entered in Australia and also in New Zealand—we intend, no matter what the other companies do, to have our own branches. We know it is going to cost us some money to get them planted, but we are going to plant them individually. In the meantime we are going pretty slowly and pretty carefully on our own hook and learning from this combination of 17 companies that Mr. Hedge speaks of. We will never succeed in doing any great amount of business through one organization, in my opinion; I think we ought to have several.

Mr. HEDGE. It has this advantage: We have spent something over $50,000 collectively in paving the way, so we are going ahead. Now,

in connection with this suggestion of yours last night, if we owned stock in the corporation, of course, that would take that stock out of our invested capital. Do you think legislation could be so framed that such a corporation could be organized so that it would not impair the invested capital of the companies?

Mr. EDMONDS. Just repeat that again.

Mr. HEDGE. If we owned stock in a corporation, the dividends from that stock not subject to tax under the income-tax law, and therefore our invested capital under the law reduced by the proportion that that stock bears to the assets of the company—what I was wondering was this: If we go ahead, or if you go ahead, with legislation authorizing the formation of such a company, it seems to me it would be advisable and perfectly practicable to so arrange it that in the corporation organized for that purpose the stock held by the insurance company should not reduce its invested capital. In other words, under the present law we would be penalized for owning such stock. Don't you agree with me on that?

Mr. THACHER. Yes.

Mr. EDMONDS. You would be penalized by the State authorities?

Mr. HEDGE. No; under your Federal tax law.

Mr. EDMONDS. In other words, you do not want the company to pay two taxes on virtually the same money?

Mr. HEDGE. That is it, exactly.

Mr. EDMONDS. I get the point there.

Mr. HEDGE. You see, our company, for instance, has $12,000,000 of assets, and if we were to own $6,000,000 of municipal bonds and corporation stock, our invested capital is cut right in half. And so, if we put more capital into a corporation of this kind it would simply increase the amount of deduction from our invested capital.

Mr. EDMONDS. I do not know exactly whether that could be arranged, but it could be looked into, and it is a suggestion worth while looking into.

Mr. HEDGE. Yes; I think that would be advisable. I think I am chairman of the committee that has that special matter in mind. It has just been put up to me, and I have referred it to our counsel to go over certain propositions. I am going to take it up with him some time next week, and, if you would care to have me do so, I would like to discuss that with other members of the committee and then try and give you a little more definite idea just what we think would be right in order to assist us in the very work we want to do and in the work your committee wants us to do.

Mr. EDMONDS. I think this, that the result will be we will frame up some kind of practical suggestions, cutting out some we have made that have been of no value, and inserting some others that have been made that are of some value, so that we can suggest a line and say, "We will do this and we will do that," not in any big drawing up of the items of it at all, but just the broad idea.

Mr. HEDGE. Yes.

Mr. EDMONDS. And then I think you gentlemen who have been particularly interested in this—we will consult with you again and find out whether that would not meet your general views, because there have been a number of opinions expressed, and we have to look at many sides of it.

Mr. HEDGE. Surely.

Mr. EDMONDS. And after we get it all arranged, we can talk that matter over between three or four of us and your committee and some of your people, and Mr. Thacher is a very valuable man in insurance, I understand——

Mr. HEDGE. Yes; he is.

Mr. EDMONDS. And we can talk that all over in the committee together and after we decide such a suggestion is good, the legislation framed afterwards in connection with that could be very easily arranged for.

Mr. HEDGE. That is first rate. Your committee is working in our interest, just exactly as we would want to work it, and we have both tackled a very difficult proposition.

Mr. EDMONDS. That is the kind of thing we like down here: the more difficult, the better we like it. You notice the railroad business, we have been working on that for three months now, trying to find a solution of that, and I do not believe we have found it yet.

Mr. HEDGE. Now, Mr. Chairman, when you boil it down, the real things that I think you can do and should do, outside of this corporation in Washington, I believe this could be done, that you should increase the tax on the export insurance to equal the taxes paid by United States companies.

Mr. CHINDBLOM. How can you reach that?

Mr. EDMONDS. That has been testified to, how can you reach it?

Mr. HEDGE. You are collecting 3 per cent to-day.

Mr. EDMONDS. Was not that declared illegal?

Mr. HEDGE. I never heard it was.

Mr. THACHER. Yes; the Treasury Department is instructing not to collect the export tax.

Mr. HEDGE. That is news to me. I know a lot of brokers who have been paying it.

Mr. THACHER. It is unconstitutional to collect an export tax.

Mr. HEDGE. Oh, not on the export, not on the premiums that are paid on insurance exported. I was using your phraseology of the export; you have been speaking of export insurance; that is, insurance sent to the other side. You can not under the Constitution collect a tax on premiums on exports, but you can collect a 3 per cent tax and you are now doing it on all premiums other than exports.

Mr. EDMONDS. But you must really collect the tax. Now, what was your suggestion with regard to this tax?

Mr. HEDGE. My suggestion is that the 3 per cent tax you are now collecting be increased to equalize the tax paid by the United States companies, so as to put us on an even basis; and, secondly, prohibiting the writing by foreign companies entered in the United States of Government business—the writing of Government business by such companies other than through American agents. In other words, it is not right for a foreign company to come in here and write fire business and then write marine business for the Government. If they come in, let them write marine business and pay the tax over here just the same as any other entered company. And particularly is it wrong for a marine company to come in here and write marine business and not to write all classes of marine business, and to take, we will say, hull insurance and write that at their

home office. That is absolutely wrong. They come in here and get the benefit of our laws and of our protection and they should do all of the business here and contribute toward the support of the States and the Federal Government just exactly on all the classes of business they write as they do on any one.

Mr. EDMONDS. Would your Boston or New York insurance authorities allow a company that wrote all kinds of insurance in England to come over here and write all kinds of insurance?

Mr. HEDGE. No; but I am referring particularly to marine and fire. I do not know that any State would allow a company to come in here and write every class of insurance. The history of legislation in this country has been this, that New York State allowed a company to write fire business which was allowed to write marine business, and then they had their other casualty and life. Massachusetts used to allow a company that had $200,000 to write fire, and if it had $300,000 to write marine, and if it had $300,000 to write fire and marine. Then they recodified the law. There were no hearings that I know of, but they recodified the law and somebody drew a pencil through and said $200,000 to write fire, and $300,000 to write marine. Subsequently I was able to get the law amended there so that if you have $400,000 you can write fire and marine. And with that are a number of so-called allied lines. You can write sprinkler equipment, war risk, bombardment, and sprinkler leakage. And then you have the casualty lines and then the life. In my opinion, all of our State laws should be amended so a company, say with a million dollars, could write any class of business that it wants to other than life. I think the life should be kept entirely separate from the effects of conflagration, and the effects of explosion and bombardment; but I see no reason, provided it has a sufficient guaranteed capital, say a million dollars, why it should not write every class of business.

Mr. EDMONDS. I think your argument is very well there. I do not see any reason why a company should not write for all lines of casualty, accident, automobile, or any insurances like that, because it certainly allows a company to expand its lines.

Mr. HEDGE. Take automobile insurance, we are particularly interested in that because we really started that business in this country, and we would gladly write the liability insurance with a portion of the automobile business provided the law allowed us to do so; but we do not feel like going out and organizing a liability company for the purpose of writing that one class of business, because when you enter these different States you would have these admission fees for the liability company, and the volume of premium writing and the liability incurred for that one class of business would make that one class of business so high that it is prohibitive. But if we could write, as the Boston Insurance Co., both classes of insurance in the different States, we would be glad to attach the liability insurance to our policy right off.

There were two or three things that came up yesterday which I would like to make a little clear, if you have the time. In regard to these fees paid insurance departments, we not only pay the fees which pay the bills for running those departments, but they are actually a source of profit in themselves to the individual States. And on top

of that we pay a 2 per cent or a 2½ per cent tax, and the fees more than take care of the insurance department's expenses.

Mr. EDMONDS. Does that prevent pinch bills in the legislature?

Mr. THACHER. It is part of the State revenue.

Mr. EDMONDS. Pinch bills are part of the State revenue.

Mr. THACHER. Oh, no.

Mr. HEDGE. What is a pinch bill?

Mr. EDMONDS. It always seems to be very prolific source of legislation when ever the legislature of the State meets, to have a great number of bills introduced to regulate insurance, and then all of them disappear by the end of the session. What is the reason for that?

Mr. HEDGE. I get your point, but that is not the explanation. The explanation of that is that it is a tendency of the American public, if they get disgruntled with anything, to go to the legislature and ask for laws to correct it. And I have been before the Massachusetts legislative hearings when those bills came up and the man who introduced the bill never took interest enough to come before the committee and argue for his bill. Some individual who has had a loss which was not paid under the policy which he has thought ought to be paid, or if he got $100 when he thought he should have gotten $125, then he gets somebody to introduce a bill. But there are very few legislative insurance bills introduced that are of value. You have a repetition of bills. I have seen in the Massachusetts legislature what we call the valued policy bill for four years, introduced year after year, and we have had to go up there and fight it and explain what it means, and why it is introduced, and yet it comes up again at each session.

Mr. EDMONDS. In some of the newspapers there is mention of what they call pinch bills. I do not know what they are, but they evidently pinch.

Mr. HEDGE. They do not pinch the insurance companies.

Mr. EDMONDS. They would if they were passed?

Mr. HEDGE. Well, yes.

Mr. EDMONDS. Of course they would.

Mr. HEDGE. Surely.

Mr. EDMONDS. Still if you folks have a nice way of doing it, by just putting up your premium, you could get it back any how.

Mr. HEDGE. Now, that is not so easily done. We have had, as Mr Evans told you, that 10 per cent surtax and it was forced right off. As a matter of fact, you know—as I started out to say you have to make a profit if you want the insurance business and the insurance companies in this country to grow, and that is what some of these insurance commissioners do not seem to realize, and that the insurance companies not only have to pay their taxes, expenses, and losses, but have to have something over to pay the stockholders if they want to keep those stockholders in the business, and if they want to get new companies started. Of course, also, you always have the chance of a big conflagration or a very bad year in the marine business. I do not believe there is a dollar of profit in writing marine insurance to-day—strictly marine insurance—because the competitive rates are so low and the expenses are so high. And I can not see any inducement to-day for the man to put up a million dollars to go into the marine insurance business.

Mr. EDMONDS. Would that be true if he confined himself to cargo insurance?

Mr. HEDGE. I think it would.

Mr. EDMONDS. Would it be true if he just took a lot of builder's-risk insurance?

Mr. HEDGE. The builder's risk does not amount to a hill of beans. In your statistics yesterday you spoke of the small proportion of builder's risk written to the total volume of premiums. The volume of premuims in your builder's risk is small, very small, indeed. We are writing to-day more or less builder's risk on schooners building in Maine, but there has not been any builder's risk on schooners building in Maine to amount to anything to just before the Spanish War. You know how little shipbuilding there has been in the country as a whole?

Mr. EDMONDS. Of course the Shipping Board, writing their own insurance, has cut all the hulls they are building, I presume, out of anything of that kind?

Mr. HEDGE. Certainly. We started writing Shipping Board vessels and then they took that stand they would all be reinsured, and in fact they had the insurance that was written canceled, and put in the Shipping Board fund.

Yesterday I judge you felt that rebates were unlawful and not proper in marine insurance. The law of Massachusetts specifically provides that the law as to rebates shall not apply to marine insurance. I was under the impression the New York law was the same. In the old days the rates used to be figured 1 per cent less 20, or 2 per cent less 20, and the business was all written that way. To-day, on the Pacific coast, you commonly see a rate of 1 less 10 or one-half less 10. In fact the big fleet insurance, I think, is placed that way. The English rate is a rate less 5 and 10, a commission and a discount to the assured, but that has not been met on this side. We allow 10 and 5, or 14½. It figures about the same, and I think you will find that the brokers on the large fleets very generally return part of that commission in the form of a rebate to the assured.

Mr. EDMONDS. You allow the cutting of commissions, then?

Mr. THACHER. We have not anything to do about it.

Mr. EDMONDS. The law allows it?

Mr. HEDGE. Yes, sir; the Massachusetts law certainly does, and I am under the impression the New York law does.

Mr. EDMONDS. Do you think that is a good thing for the business?

Mr. HEDGE. No, sir; I do not, because I think it works this way, particularly on cargo: Suppose that the rate is one-half of 1 per cent and you allow 10 per cent commission to an agent and he rebates a half of that and makes a rate of 47.5 cents to his assured and gets the business away from another company. Now that other company immediately figures his rate is 47½ cents and it puts down its rate to 47½ cents to meet it, and there you have a reduction in rates resulting from it.

Mr. EDMONDS. In other words, it enables the broker to bat one company against another, and foreign companies against the companies here, by stating his rate is so and so when it is not?

Mr. HEDGE. He make a rate (the insured does not care to go into the details) of 47½ cents, probably; he does not bill it 1 less 10.

Mr. EDMONDS. The natural result would be the broker thinks the other company made that rate?

Mr. HEDGE. Yes. He comes down in his rate.

Mr. EDMONDS. Is it necessary for your protection against foreign companies, or admitted companies, if you want to compete there, to have the agent or the broker be a free lance like that in cutting his commission?

Mr. HEDGE. It assists in competition; yes.

Mr. EDMONDS. It assists in competition?

Mr. HEDGE. Yes.

Mr. EDMONDS. Therefore, just at the present stage of the insurance business, it is not a bad thing then to have the broker work this way?

Mr. HEDGE. No. Turn it around the other way, would you forbid the paying of rebates in marine insurance to-day? I do not think I should urge that action.

Mr. EDMONDS. You think it would be better to leave it a little free?

Mr. HEDGE. I think so; free competition. Of course, there is really too much competition, but the way things are to-day I think it should be that way.

Mr. EDMONDS. If you American companies were a little closer together, I do not believe there would be so much competition. If you understood each other better, I think probably you would be corresponding with one another and you would know a great deal of what the brokers were doing and you would not allow them to bat you around so much.

Mr. HEDGE. You take your burlap insurance arrangement, it works just that way, you see. That is a mighty good thing for the American insurance companies. For instance, if we had a large line on burlap we might go to Mr. Chubb or to Mr. Rush or the branch of the Providence-Washington, etc., and ask them if they would take $100,000 reinsurance. They have customers who may have burlaps on that same vessel. We do not know, you see, until sometimes when the vessel may arrive what we have on the steamer. Mr. Chubb might say, "I would be glad to take it, but I am afraid we have lines for some of our local customers." And he would not take it. The result is the other companies would be in a similar position, and you might have a good deal of that reinsurance go abroad, whereas now, with this reinsurance arrangement, if we have a large line, and that takes up a large proportion of the cargo space, why, we know the other fellow must have less, and we know about what the lines on burlap run and it is divided around in these proportions. So that the whole thing is taken care of and we all get a line on that steamer, whereas if that steamer had arrived in the first case Mr. Chubb's customers might not have had a dollar on it and he has declined business he would like to have had, and he has declined for fear he might have that very line for himself for a regular customer.

Mr. EDMONDS. An arrangement like that stabilizes rates, and as long as the rates are not unjust I can not see why there should be any particular objection to that.

Mr. HEDGE. I do not think there is any objection. As a matter of fact, I do not think the merchant cares whether he pays a 50-cent rate or a 55-cent rate; but the importer of hides, say, goes out to lunch and goes to his club, and he sees another importer, and they get to dis-

cussing the rate on hides from the River Plata, and the first man discovers whereas he is paying a 60-cent rate the other man is getting his insurance for 50 cents. Then there is trouble right off. But if they are both paying 60 cents or both paying 50 cents, they are both satisfied—they do not care which rate they pay. As a matter of fact, in that burlap reinsurance arrangement, we had an interest with the Beamish Bros. Bag Co. there in Boston, and I went right to the vice president there in charge and I told him we were thinking of going into this arrangement and I wanted to tell him about it. I told him, "I want you to know what we are going to do because you have always insured with us and stuck right by us and I do not want to put up a deal behind your back, and I think you will approve of the arrangement." And inside of 15 minutes I walked out with his entire approval, and they have no reason to be dissatisfied and have never expressed any dissatisfaction since. And during the war we had for them on certain cargoes—they had a number of entire cargoes from Calcutta to Cuba on which we were backing them only, and by reason of that reinsurance arrangement we were able to take care of them. They had a cargo that ran up to $3,000,000—that may be a little high, but it was up in the millions—and we were able to take care of it right here in America, I think almost entirely, because of the burlap reinsurance arrangement.

Mr. Edmonds. Didn't they reinsure on the other side at all?

Mr. Hedge. I am not positive about that, but we took care of a tremendous amount right here in this market, and we never could have done it except with that arrangement.

Mr. Edmonds. I did not ask Mr. Evans what he thought of this arrangement, but it struck me as being a reasonable sort of an arrangement.

Mr. Evans. The pooling arrangement?

Mr. Hedge. Yes. It is not a pooling arrangement——

Mr. Evans. I think that is in all lines of insurance.

Mr. Edmonds. It leads to a stabilization of the market, I imagine?

Mr. Evans. The great thing is to be sure the American companies are in the pool.

Mr. Edmonds. Yes; and that they get at least their fair share of it.

Mr. Evans. Yes.

Mr. Edmonds. That is what struck me, in looking over some of these pools, that considering the fact that the percentages of reinsurance of certain of the companies was so great on the other side, it looked as if the reinsurance arrangement, instead of taking care of the American companies and giving them their full lines as far as they can carry, and then reinsuring what was left on the other side, that they might be doing too much on the other side.

Mr. Hedge. Of course, you have another point of view, and that is the English companies' point of view, that they have been over here and complying with the laws of the United States for the last 40 years and paying taxes, and have been welcome over here, and their assistance has been needed, and they have built up a big business, and why should they turn around and give some new company that has just organized, or some fire company that has stood back and never taken an interest in the matter, a large portion of their business?

Mr. EDMONDS. That is true, looking at it from a business sense; but looking at it from a commercial sense, to build up our merchant marine and our commerce it is a different proposition. For instance, look at this gold arrangement I told you about yesterday, in which England prohibited gold being insured by English insurance companies from anywhere except to and from England—why, she simply was building up her own commerce at the expense of the other fellow. The companies who are either controlled or interested with the English companies here refusing it would mean that you would have to go to England and ask whether we dared or dared not export gold.

Mr. HEDGE. I do not think that was the reason for the action of the English Government there. I do not think it was for the purpose of building up their commerce; I think it was a matter of exchange or something else. I really know very little about that, but I do remember this: that at that time we were asked if we would take insurance on gold. We do no insurance of securities such as registered mail, as a rule, and this gold is written at a very low rate and for a very large amount. We were asked if we would enter into an arrangement with other American companies so as to facilitate the shipment of gold from this country to South America at that time, and there was to be a meeting of the companies held for the purpose of arranging such cover by American companies. I think we all as American companies would have taken an interest in putting through such an arrangement, provided we could get a rate that was fair to our stockholders; but for some reason or other the banks at that time did not make that shipment and the matter was dropped. But if it had not been dropped, you would have found the American insurance companies insuring gold to South America.

Mr. EDMONDS. I understand the banks simply transferred it through English sources.

Mr. HEDGE. I do not know. All I know, from an insurance point of view, is that the matter was dropped. And you have, you see, a large amount of capital over here and if there was sufficient profit in the business to make it worth while to write big lines, we could write enormous lines. You have a combined capital and surplus of $249,000,000, and that is plenty of capital.

Mr. EDMONDS. That is, all fire and marine insurance companies?

Mr. HEDGE. Of those that are writing marine to-day. If you combine fire companies alone that have the authority under their charter, it would bring it up tremendously. But it works this way: In the old days when our companies were organized, there were a tremendous number number of sailing vessels and we used to carry $20,000 on a sailing vessel all over the world. As sailing vessels gradually went out of existence and a number of individual risks dropped behind we had to reduce our individual lines, so that five years ago a $10,000 line on a sailing vessel was a large line. I do not know of any other company writing as much on an American schooner as $10,000. Since the war there have been a large number of schooners launched and which have gone into the trade, and we have an additional volume of premium, so we have increased our line so that to-day we carry $15,000 on a hull—and hull and cargo we carry $20,000—just double what we were carrying before, simply because we could spread the risk to new vessels.

Mr. Edmonds. Is that spread of risk growing to-day?

Mr. Hedge. Yes; although I do not think it will grow very much more in that particular line of business.

Mr. Edmonds. You have a line on the hulls?

Mr. Hedge. On that particular schooner line. Of course the steamer line the Emergency Fleet has turned into the insurance market has increased that spread, but there is no use of turning the new Emergency Fleet into the insurance market at a rate that does not pay the bills and leave something besides; I mean there is no use turning the Emergency Fleet over to the American people, to the American insurance interests, with the idea of doing it at 5 per cent, which equalizes itself.

Mr. Edmonds. And there is no use of turning the Emergency Fleet over to the American insurance interests if they are going to reinsure 90 per cent of it on the other side at a low rate.

Mr. Hedge. I do not think you would reinsure 90 per cent over there; I do not think they would do it at a lower rate. I think there would be value in it to the American insurance market for that volume of premium.

Mr. Edmonds. I think it would be of value if the American insurance companies would take it all themselves and would agree not to reinsure it outside of this country.

Mr. Hedge. How many of the companies now writing hulls accept hull lines and reinsure abroad?

Mr. Edmonds. Nobody has any hull lines that we can find to-day that are worth anything in this country.

Mr. Hedge. Oh, yes; they have, sir.

Mr. Huebner. There are some companies the majority of whose marine insurance is their hull insurance.

Mr. Hedge. These have recently gone into business, and their hull lines are out of proportion to their cargo lines. The only reason they are not writing cargo lines is because they can not get enough. I think Mr. Rush said he was not writing hulls to-day, and when we were discussing this very matter at a committee meeting he said if he could get an adequate rate on the hulls he would write as much insurance as any two companies; that the North American and the Alliance would write $400,000 on an individual hull. It is all a matter of getting enough premium.

Mr. Edmonds. That is true, and yet here you have the English advancing their rates on the hulls in England and other foreign countries and keeping down to the same old rates here.

Mr. Hedge. If they boosted the rates, I think they would lose the business. I think this country, they know just as well as we know, has had a tremendous growth of its merchant marine. In the old days there used to be comparatively few American companies writing this business and they got a very large proportion, and to-day it is going over there. But now to-day they realize that we have these new companies that have gone into the business, the Continental, the North American, the Glens Falls, the Westchester, the American of Newark, the Camden of New Jersey—all those companies that were fire insurance companies pure and simple have now gone into marine insurance and they have increased the marine insurance facilities tremendously. And if the English boosted their

rates so as to make the business profitable to American companies, then they would lose the business naturally.

Mr. EDMONDS. The temptation would be very great, I know, if I was in the insurance business, to take a very big line on American hulls at a good rate that paid and to reinsure in England where they are taking hulls at a great deal lower price and take the profit between the two. How can you prevent that? They have all the insurance of the Navy; you acknowledge yourself the builder's risk is insured in England.

Mr. HEDGE. Yes. I think there was very little of the business and the business was not of tremendous value. You take a battleship costing several million dollars, the facilities for writing that in this country were very small, and I know for my own company we did not write that class of business because there was not a sufficient volume on which we could make an average, and if we got one bad loss there was no volume of premium to take care of it.

Mr. EDMONDS. There must have been considerable during the war, a tremendous number of risks. Of course I presume there were a good many small risks and you could not get much out of them?

Mr. HEDGE. When the war began and the shipbuilding began to increase here, we took up builder's risk and went into it simply because we could get a volume of premium. We are writing builder's risk to-day. In fact, all the Maine schooner risks that used to go to London Lloyds, because they allowed a perfectly ridiculous rate that we could not look at, I think to-day all that business is being written in this country.

Mr. EDMONDS. That is coming back now?

Mr. HEDGE. They would rather do business with us over the English, if we could do the business.

Mr. EDMONDS. Is it an advantage to be insured in an American company in the way of collecting losses and damages?

Mr. HEDGE. I think so. It seems to me it stands to reason it must be so. If you have a vessel that is building at Fore River, or at Bangor, and it is insured with the Boston Insurance Co., you can come right in there with your bills and sit down there and in half an hour or an hour you can run over it with the adjuster and get anything you want information on, and the whole thing can be cleaned up and settled very promptly. Whereas if you have to send across to England there is necessarily a delay, although the English underwriters settle very promptly.

Mr. EDMONDS. Do they settle from England or from here?

Mr. HEDGE. They settle from England. You are talking about business that is exported?

Mr. EDMONDS. Oh, yes.

Mr. HEDGE. They settle that from England.

Mr. EDMONDS. And in any case the man would have to wait 20 or 30 days before he could get a settlement?

Mr. HEDGE. Oh, yes.

Mr. EDMONDS. Don't they have people here to settle up losses? I am not talking about indemnities.

Mr. HEDGE. They have surveyors over here that go over the loss at the time and survey the vessel's damage and approve specifications

for repairs and such things as that, but the actual money transaction is on the other side.

Mr. EDMONDS. Do these brokers representing English companies settle these losses when they are small losses?

Mr. HEDGE. I can not answer that. There are some others here who can tell you about that. If they do, I think they advance it for the foreign account.

Mr. EDMONDS. In this export business, in the case of a suit, suppose now it was a United States battleship and the insurance had been exported on it?

Mr. HEDGE. Yes; and the insurance was placed with London Lloyd's. You would have to sue in the English market in London.

Mr. EDMONDS. You would have to sue in the English market to get any redress?

Mr. HEDGE. Yes; unless you could get jurisdiction here in some way over funds you happened to know of that were here. But that is incidental. The answer is they would have to sue in the English courts.

Mr. EDMONDS. Then it is an advantage to have the policy here?

Mr. HEDGE. Yes; certainly. Furthermore, there is this difference in the exchange and we have a time, because a man who placed insurance there when the exchange was 4.75 for the pound sterling, now if he has a total loss he gets $4.13, and the result is a lot of these merchants, especially vessel owners who have had insurance with London, have taken out additional insurance to cover the shrinkage in their insurance by reason of the shrinkage in the original value of the pound sterling. And there is a distinct advantage in insuring at home also, because the more premiums you build up here at home necessarily mean a reduction in your taxation rate, because the more there is subject to tax the less the rate.

Mr. EDMONDS. What do you think of the idea of some supervision?

Mr. HEDGE. I am a little bit fearful of it. We have 48 supervisors now.

Mr. EDMONDS. Their supervision would be entirely different from ours.

Mr. HEDGE. If you were going to be the supervisor for the next 10 years, knowing your point of view, I should advocate it.

Mr. EDMONDS. If it is a better job than I have, I might take it.

Mr. HEDGE. There is so much in the individual; that is the point.

Mr. EDMONDS. I presume that is true. Yet, at the same time, the Shipping Board has this supervision which has been lying dormant, and I think it virtually covers it all.

Mr. HUEBNER. Merely from the standpoint of the exporter and the importer—discriminations against them.

Mr. HEDGE. The shipping act provided they should look into the matter of marine insurance and make recommendations.

Mr. EDMONDS. This is the looking into it now.

Mr. HEDGE. That provided for the Shipping Board.

Mr. EDMONDS. We are looking into it for them. They have not done so and we find it is necessary to be looked into, and I would like to say that they are with us in this matter, and this testimony is going to them just as much as it is to us.

Mr. HEDGE. I think the entire interest here is one and the same to help the American insurance business and that the Shipping Board's interest, your interest, and our interest are all one.

Mr. EDMONDS. Being in business myself, and one that is very well supervised, I realize the great trouble you folks are under and the expense you folks have in preparing and continuing reports.

Mr. HEDGE. It is more than the expense.

Mr. EDMONDS. I would not want to go so far as to make you a lot of trouble, but I would think supervision which would prevent injustice and inequalities, or some kind of——

Mr. HEDGE. Development of facts.

Mr. EDMONDS. Some kind of supervision which would develop the facts, and that would prevent a man doing an injustice, which would have the effect of supervision generally so that this man would say, "Now I would not want to do that, because that is not altogether the thing to do," whereas, if he knows he has no supervision, he might do it—I think that would be a good thing.

Mr. HEDGE. Yes; except for the fear of the supervision being a source of trouble, I should say it was an extremely good idea.

Mr. EDMONDS. Not with the idea at all of giving any regulatory powers but simply to prevent things that ought to be prevented, and which probably most of the men in the insurance business would agree on preventing.

Mr. HEDGE. Yes.

Mr. EVANS. May I suggest if it were possible for the Federal Government to give a license to do business in the United States, we could get away then from the 48 different requirements. You can not stop the taxes, you can not stop the police powers of the States, but it ought to be possible to have a company do business in the United States under a Federal or its own State license, or whatever you will, without being annoyed and being put to heavy expenses by 48 different States.

Mr. EDMONDS. We will think that over, Mr. Evans, and you think it over, too.

Mr. EVANS. I do not know what you can do.

Mr. EDMONDS. There are a great many legal obstacles to a thing like that and everybody has to put their best thought to it and get the advantage of the best opinion upon it to see if it is possible. If we have to get it through an amendment to the Constitution, then you can never hope to have it in your lifetime or in mine; but if we can do it in any legal manner, that would possibly be a helpful solution.

Mr. EVANS. I think insurance is commerce.

Mr. HEDGE. In spite of the Supreme Court?

Mr. EVANS. The Supreme Court has ruled the other way. But to-day a cotton buyer in Texas, for instance, a part of his contract is to deliver his cotton in Liverpool, and to cover the insurance. Now, the insurance is a part of that contract, and I believe if the matter came before the Supreme Court, if you could properly frame up such a case, that they would change their ruling.

Mr. HEDGE. I hope it never does. I should hate to see Federal supervision. It is not as bad as it used to be under State supervision, and the commissioners are working together more and more, and I

think sometimes the companies are a little at fault in not getting together and putting their point of view up to the commissioners in the right light.

Mr. Edmonds. Another thing is the question whether we could not, after this discussion is ended, make some suggestion to these associations of State commissioners. That would help, too.

Mr. Hedge. I think it would.

Mr. Evans. They have a committee now that has the matter under consideration and it was done at my suggestion through a letter I wrote to Governor Smith, that he referred to Phillips when he was commissioner of New York State, and the whole matter was referred to a committee of the insurance commissioners to see if they could not simplify the situation. They go to this extreme in many of the States. If I send my statement to New York State, I can not have that duplicated in print or by photograph or by anything else. Massachusetts, under old Commissioner Hardson, would not take anything but a hand-written copy. Now I have three companies, and nearly every State requires from two to four copies in the State, and I have to swear to it—of course, to the best of my knowledge and belief—but I like to know what I am swearing to. And if I had a photograph (there is a process, you know, of photography that would enable me to have these blanks photographed) then I would be sure all I had to do would be to examine one. But they won't take it. I do not say all States do that way, but a number of the States in the United States require a hand-written copy, which is utter rot.

Mr. Hedge. The report filed yesterday by Mr. Rush was a report of the marine underwriters of the United States, which was filed in response to the invitation of your committee forwarded by me to the association at your request in August. The association referred the matter to their legal committee, which reported back to the association the matter was considered of such importance that a special committee should be appointed further to consider what recommendations should be made. That committee held subsequent meetings and reported back to the full association, and the association made several minor changes; and the report filed with you is the report adopted by that association at that meeting.

Mr. Thacher. That is why you got two drafts?

Mr. Edmonds. No; I had the preamble that you agreed on in your association in regard to the fact there were enough companies now to do the business. I got that three weeks ago.

Mr. Thacher. Exactly; that was the draft of the committee.

Mr. Edmonds. I got that, and with it a very strong protest that that statement was not true; that there were not enough companies to do the business.

Mr. Hedge. With the statement of the capital which I gave to the committee, there is no question you have plenty of capital if you got the business.

(The committee thereupon took a recess until 2 o'clock p. m.)

AFTER RECESS.

The subcommittee reassembled, pursuant to the taking of the recess at 2 o'clock p. m.

TESTIMONY OF MR. WALTER WOOD PARSONS, OF NEW YORK, VICE PRESIDENT OF THE ATLANTIC MUTUAL INSURANCE CO.

Mr. EDMONDS. Suppose you go right ahead with your statement, Mr. Parsons, or if you have any suggestions to make.

Mr. PARSONS. It has occurred to me, in hearing the facts that have been presented before you, it might be wise to state that this company, the Atlantic Mutual Insurance Co. of New York, is the only mutual marine insurance company in the world, and they have been doing business on a mutual basis since 1842. That, of course, means that the profits on the business revert to the assured, and that the business is done as nearly as possible on a cost basis to the assured; so that we feel the rates charged the assured represent the actual cost of the business. And inasmuch as we are, I think, on friendly relations with all the other stock companies, and who are doing a similar business on a non-dividend basis, we feel that the general rates of premium charged for marine risks measure the value of the risk; so that the American market is not a market which is excessive in its charges for marine insurance. In other words, if business is placed on the other side, it is done at lower rates simply as a temporary expedient; that the value of the risk is measured by the American market rates. Having that in view, it would seem that American insurance should be placed with American companies, and, in back of all the laws which might be suggested, either punitive or remedial, for American marine insurance, there should be this idea of patriotism, that the American merchant or the American Government, when it is necessary or apparently necessary for them to effect insurance, the preference should be given to the American market. It is rather difficult, I think, to instill patriotism into an individual unless the example is set by our Government. In other words, that where it is necessary to place insurance, even if the rates are slightly different in the American market, that the American market should be encouraged by both the Government and the individual rather than the foreign markets.

Further, it seems to me that it is a very difficult matter to legislate as to where a man shall place his business, and that any legislation along marine insurance lines should be to equalize the position of the American underwriter with that of the foreign underwriter, and, if possible, to place them in the same position as the foreign underwriter is with respect to taxes and other restrictions about doing his business.

Mr. EDMONDS. Do you do hull insurance?

Mr. PARSONS. Yes. Our hull insurance business, if I may explain here, is confined to American bottoms. We are distinctly an American company and we do not write as a rule the hulls of any vessels that do not fly the American flag. There are only a few exceptions where we have taken risks on hulls that were of foreign registry.

Mr. EDMONDS. Of course, cargoes, you have to take what you can get?

Mr. PARSONS. Cargoes we have to take what we can get.

Mr. EDMONDS. What about builder's risk?

Mr. PARSONS. We have written builder's risk in limited amounts.

Mr. EDMONDS. Is there much opportunity for the writing of builder's risk in this country. Will most of the companies take it?

Mr. PARSONS. I think most of the companies do take it, but the builder's risk has been recently, as I understand it, largely controlled by the Government and the bulk, I think, has been placed in foreign companies. In other words, it has been taken out of American markets largely.

Mr. EDMONDS. That is because, I presume, the Shipping Board insured their own risks. Is that right, Mr. Chubb?

Mr. CHUBB. The Shipping Board did what?

Mr. EDMONDS. Insured their own builder's risk?

Mr. CHUBB. Yes.

Mr. EDMONDS. They insured their own builder's risk on their own bottoms.

Mr. PARSONS. As I understand it, the Navy Department did theirs in foreign companies.

Mr. EDMONDS. The Navy did effect their own insurance and most of it went out of this country. Are the rates on the hull business profitable?

Mr. PARSONS. You mean as a class?

Mr. EDMONDS. Yes.

Mr. PARSONS. I think that varies from year to year. Some years they are profitable and some years they are unprofitable.

Mr. EDMONDS. Are they very profitable when they are profitable?

Mr. PARSONS. No; not very profitable.

Mr. EDMONDS. Not very?

Mr. PARSONS. I think it is usually a touch-and-go with hull insurance, whether you make your losses out of it or not.

Mr. EDMONDS. One thing that strikes me as peculiar is that there is such an evident effort by foreign companies to get our hull insurance. Why is that?

Mr. PARSONS. I do not know why that is. I think it is true that a large portion of the hull insurance has gone to foreign companies during the last two or three years, and I think not only hull but cargo insurance, but I think that is a situation that is very likely to readjust itself, because it has gone at rates which were lower than the American standard rates, and, as I tried to point out a few minutes ago, I think the American rates are not higher than the business will warrant, and I think the pendulum is bound to swing back and that that business will return to this market when the foreign companies have found it unprofitable. It has been my experience in the last two or three months, where we have lost large accounts to Lloyd's at lower rates, that after four or five months have passed I have been offered those accounts back in our own country at our own rates by British insurance companies because they have found it unprofitable. So I think the importance of the amount of business that has gone to foreign underwriters during the past two or three years is perhaps overestimated, because I think the natural channel will be it will find its way back when foreign underwriters find it is unprofitable at the rates they have taken it from us.

Mr. EDMONDS. How do you fix your rates?

Mr. PARSONS. That is a very difficult question to answer. We fix our rates according to our own judgment of the risk and the value of the risk. There are no fixed marine insurance rates.

Mr. EDMONDS. No; I assume that, and from the testimony it is more or less a case of judgment and conversation?

Mr. PARSONS. Experience and knowledge.

Mr. EDMONDS. Knowledge and experience and talking it over with each other. I suppose you form your judgment, of course, from others' experience and through the business and results that you get yourself?

Mr. PARSONS. Principally from the results we get ourselves, I think.

Mr. EDMONDS. Yet your rates are all very near alike?

Mr. PARSONS. Generally speaking, I should say that was the case.

Mr. EDMONDS. You do business with agents?

Mr. PARSONS. We are a mutual company and we have representatives, but we do no underwriting through agencies. All the underwriting is done at the Wall Street office in New York. So, strictly speaking, we have no agencies.

Mr. EDMONDS. That is different from the old-line company?

Mr. PARSONS. We are peculiar in that respect from many, because we are the only mutual company that exists at the present time.

Mr. EDMONDS. When you underwrite business, of course, that is brought in by a broker, you pay for it?

Mr. PARSONS. We pay compensation to the brokers for business, for bringing business in to us, yes. There is no fixed rate of broker's compensation.

Mr. EDMONDS. What do you know of the export of insurance abroad? I think you heard what I meant by export?

Mr. PARSONS. Yes. It is only hearsay, of course. As an underwriter I do not know very much about it, except from the amount of American business which has been done and the amount of premium for that business which has originated in this country. Of course, it is obvious a great deal of it does go abroad.

Mr. EDMONDS. Do you think between 30 and 50 per cent of the hull insurance is exported?

Mr. PARSONS. I should say that is a fair figure, but without knowing.

Mr. EDMONDS. You heard this morning some of the suggestions made in regard to the lines of thought looking either to legislation or education?

Mr. PARSONS. Yes.

Mr. EDMONDS. What do you think of those different propositions we suggested?

Mr. PARSONS. I think the propositions are all very interesting, but I doubt if any of them are really curative. I think it is a question of education.

Mr. EDMONDS. Will they help?

Mr. PARSONS. I think they are helpful, decidedly.

Mr. EDMONDS. Do you think a little supervision, gentle supervision, with the idea of weeding out injustices, would be a good thing?

Mr. PARSONS. I think perhaps we have too much supervision at the present time.

Mr. EDMONDS. Of course, the Government has let you alone up to the present, you know, and we do not like to see two-thirds of this insurance going over to the other side. You do not seem to be able to hold it down yourselves, and if we let go of all these Shipping

Board ships I am afraid we will find 90 per cent of that trotting over to England to be insured.

Mr. PARSONS. I think if it did the result would be very beneficial to the American market.

Mr. EDMONDS. The American insurance market?

Mr. PARSONS. To the American insurance market.

Mr. EDMONDS. What makes you think that?

Mr. PARSONS. Because I think if it goes over at the low rate now that the experience will warrant its coming back at the rate at which it should be written, at a moderate profit, in the American market.

Mr. EDMONDS. Don't you think they have pretty good judgment over there when they write this insurance, or do you think they just take a chance?

Mr. PARSONS. I hate to criticize their judgment.

Mr. EDMONDS. You think then that they would take this insurance and find it was so expensive they would not want to take it after awhile?

Mr. PARSONS. I am quite sure of it.

Mr. EDMONDS. That was not our experience after the Civil War, you know that?

Mr. PARSONS. Yes.

Mr. EDMONDS. They did exactly the same thing they are doing now after the Civil War, and hung on to it. That comeback you are just suggesting did not come back after the Civil War.

Mr. PARSONS. I want to call your attention to the vast increase in the American market for marine insurance. The American market has really not been asleep. The writing involved and the capital involved have really quadrupled, and I am quite sure it could not do that at rates which are not mutually remunerative.

Mr. EDMONDS. Of course, during the war time if the experience of the War Risk Bureau was anything to go by, the rates were exceedingly remunerative.

Mr. PARSONS. I think that is hardly a fair comparison.

Mr. EDMONDS. I do not think it is either, because they had no overhead and no agency expense like an ordinary insurance company would have. But even at that there was a fair return for the money that would have been necessary to have been invested and earn a fair profit.

Mr. PARSONS. They certainly had a very fair return for their money.

Mr. EDMONDS. Virtually they claim $17,000,000 profit.

Mr. PARSONS. I think so.

Mr. EDMONDS. Which might probably have required a capital to handle the business of $100,000,000, and it would have been a very fair return for the time they were in business. And I guess the rates were very profitable during the war; I should imagine they were: I hope they were. The more you got the more we got when we came around for our excess profits. So I imagine the situation is better than after the Civil War. I think you are right on that. The question is now: Can we hang on to it or are we going to let it go again, or are these companies going gradually to dry up and go out of business?

Mr. PARSONS. A good many things have gone dry recently that have not been dry before, and that may be.

Mr. Edmonds. Does that include New York? [Laughter.]

Mr. Parsons. That includes New York. I do not see any evidence of the American marine underwriters going out of business from the showings now exhibited.

Mr. Edmonds. They have been hit pretty hard on the hull business already.

Mr. Parsons. We have all been hit pretty hard during the last four or five months. There has been a succession of tremendous losses.

Mr. Edmonds. Do you mean real losses or losses of business.

Mr. Parson. Real losses, marine losses, such as the Galveston flood and the sinking of steamers with very large cargoes and steamers running ashore. In fact, the marine business at the present date is not in a very healthy condition.

Mr. Edmonds. You go on and prescribe something for it, so that we can put it in a healthy condition.

Mr. Parsons. For one thing, the regular line captains have in a large measure been removed from their runs, and inexperienced men are handling vessels, transatlantic and otherwise, to the great detriment of the safety of the cargoes and the vessels themselves. The fact came to my attention the other day of a young man who had just received the captaincy of a vessel at 22, in full charge of a vessel of over 5,000 tons, carrying a cargo of $3,000,000 from one of our American ports to the other side. It naturally causes an old underwriter to pause as to whether or not, if that vessel got into trouble, that captain of 22, with such a valuable cargo and such a big steamer, would be able to handle the situation. That is one thing.

Mr. Edmonds. And yet that limitation of age of 21 years for a captain has been on the English books for a hundred years, and they have been running cargo steamers with boys of 20, 21, and 22 in England for years. We had a limitation on the captains, and we withdrew it in 1914 on account of the fact we found on investigation that not only in England but in all the continenal countries a man of 21 years of age could be a captain of a steamer. And we reduced our officers' age to 19, I think it was, so that a man could get to be a captain here by the time he was 23 or 24 years of age.

Mr. Parsons. The putting of a man of that age in charge of vessels of that character, however, is out of the question.

Mr. Edmonds. Then when it comes down to the competition of the ships, we find it is complained of by the owners that they can not get these officers, and that we make the limitations too hard for them, and they can not run their ships because it makes it too expensive. So we have the other side to think of. There are two sides here. A man can become a captain now at 21 years of age, but, of course, he should have the experience.

Mr. Parsons. My particular reference was to the change of routes, where there is a manning of vessels with inexperienced crews on new routes, and vessels originally constructed for the coastwise trade only being used in the transatlantic trade, and the general upheaval of the old men on the old routes and the old vessels on the old routes, which has resulted, I think, in very serious losses.

Mr. Edmonds. Don't you think we have been rather fortunate in our losses; that even with all that, with all the enormous expansion we had to take care of, we have been rather fortunate in our losses?

Mr. Parsons. During the war times, I think so; yes.

Mr. Edmonds. During the war times, and even now we seem to be fairly lucky.

Mr. Parsons. Only fairly lucky, sir.

Mr. Edmonds. I do not believe any other nations are any luckier than we are; I think we are just as well off as any of them.

Mr. Parsons. With respect to sinking by war perils, I think so.

Mr. Edmonds. And sinkings by ordinary perils, too; don't you think so?

Mr. Parsons. Perhaps so.

Mr. Edmonds. I see in the papers every once in a while where an American ship gets in trouble, but I also find that a Spanish ship gets in trouble, and an English ship gets into trouble, and I do not think we are worse off to-day than most any other nations; I think they have all had their troubles on that score.

Mr. Parsons. I quite agree with you there, sir.

Mr. Edmonds. I think you gentlemen have your rates fixed so that you can take care of all your troubles, and that you keep them up there until you get competition and then you have to put them down. I know if I were in business, I would do that.

Mr. Parsons. I do not think that the average marine rate at the present time is sufficient compensation for the hazards incurred, however. The going rates are not sufficient from a purely marine standpoint to compensate for the hazards.

Mr. Edmonds. Of course, you have had an opportunity to have exceedingly high rates. You know it and I know it. Then the time comes—there is always a reaction on that kind of thing—and it goes too much the other way. Then the time comes when they will stabilize themselves.

Did you hear about the Webb-Pomerene bill for allowing the companies to get together without any danger of being prosecuted under the Sherman Act?

Mr. Parsons. I have heard of the bill; yes.

Mr. Edmonds. You heard it mentioned here this morning?

Mr. Parsons. Yes.

Mr. Edmonds. What do you think of that?

Mr. Parsons. I am not familiar with that bill.

Mr. Edmonds. It is simply allowing the combination of companies for export business. As far as that could be made to extend to insurance, would that be anything beneficial? I suppose yours being a mutual company you would not be very much interested in that?

Mr. Parsons. No; and really I can not speak intelligently on that subject because I am really not familiar with it.

Mr. Edmonds. It would be a case where a number of insurance companies could get together and combine to do this business.

Mr. Parsons. You mean under the suggestions that were made by Mr. Hedge this morning in his testimony?

Mr. Edmonds. Yes.

Mr. Parsons. We, of course, had not been approached on that subject, and I am not thoroughly familiar with what Mr. Hedge spoke of.

Mr. Edmonds. We were wondering whether it would not help the business along a little bit. Have you any idea how to stop this export of insurance to foreign markets? I am not talking about reinsurance, but I am talking about the export of insurance.

Mr. PARSONS. That is a very difficult thing. I think there is merit in some of the plans that have been suggested. I think the fundamental thing, however, is the patriotic idea that insurance should be placed with American companies so far as possible; and I do not believe that the American market is being used to that extent, from lack of that very feeling.

Mr. EDMONDS. I was thinking last night that the man who had an agency in this country and also had an agency in London would be able to make a very considerable profit out of the changes in rates from time to time, would he not?

Mr. PARSONS. You mean representing an American or a British company?

Mr. EDMONDS. He would represent himself and make as much as he could out of it?

Mr. PARSONS. As a broker?

Mr. EDMONDS. He would place the policies in England when he could get more in England and he would place the policies here when he could get more over here—just in accordance with where he made the most money on it.

Mr. PARSONS. I think most of the large brokerage houses are represented in London and they have connections at both ends of the line and effect their insurance where they get the lowest rates, and make their commissions at either or both ends.

Mr. EDMONDS. Do you think taking advantage of the market on both ends in that way leads to a considerable exportation of the insurance?

Mr. PARSONS. I do certainly think so.

Mr. EDMONDS. It does lead to the exportation of insurance?

Mr. PARSONS. Yes. The activities of a broker to-day, as I understand it, are practically uncontrolled. He can place the business wherever he pleases. If he is familiar with the London market and the rate is lower there on a particular fleet of steamers, he takes advantage of that market and places it there.

Mr. EDMONDS. He is like a bull in a china shop and runs around loose in the business. Of course it is very unfair competition, that exportation of insurance, because it does not pay any taxes.

Mr. PARSONS. No; it is absolutely unfair.

Mr. EDMONDS. And I question very much if it pays taxes on the other side; and where you do not establish a kind of interocean relationship, that you lose everything except the interest of the broker in it. Of course, I guess there is no question if the insurance companies were allowed to engage in a number of different lines—they would be very much better off, different lines of insurance. I do not suppose that would interest your company either?

Mr. PARSONS. I think our charter is very broad in its character, but we have never taken advantage of any other line of business except the purely marine insurance business. I am not so sure that the broadening of that line of endeavor would result in the success of the marine underwriting. I think for the ordinary individual it would be a success if the marine underwriting required all of his attention; and if you branch out into liability insurance, automobile insurance, and various other forms of insurance, it is not conducive,

perhaps, to the greatest success of marine underwriting. That is my own individual opinion.

Mr. EDMONDS. Still, if a man could have a number of different lines, some profitable and some not, it would lead to a lowering of the rates possibly.

Mr. PARSONS. I do not know that that would follow, sir. If you have a particular malady, you generally go to a specialist and I think marine insurance is it.

Mr. EDMONDS. Do you know anything about the load water line? We have a bill before us now for the establishment of a load water line.

Mr. PARSONS. I think it is a very important measure and that a determination of the load water line on vessels of American registry is very necessary and should be adopted at once.

Mr. EDMONDS. Do you speak of steamers for over-ocean business only?

Mr. PARSONS. All steamers either coastwise or over-ocean.

Mr. EDMONDS. You think they all ought to have it?

Mr. PARSONS. It is particularly important for the coastwise steamers, in my judgment. They are grossly overloaded.

Mr. EDMONDS. And particularly objectionable, too?

Mr. PARSONS. And particularly objectionable, too. But possibly the measure of its importance is the measure of its objection.

Mr. EDMONDS. I think that is true. It is just as useful in the coastwise as it is in the over-ocean.

Mr. PARSONS. As existing at the present time, I think it would be more useful in the coastwise than in the over-ocean, perhaps, if that is possible.

Mr. EDMONDS. It would help considerably in your judgment, in taking risks on coastwise steamers, would it not?

Mr. PARSONS. It certainly would. It would be an insurance in itself as to the safety of the voyage in question.

Mr. EDMONDS. Who would be the proper party for establishing that load line and taking care of it.

Mr. PARSONS. Some recognized classification society, such as the American Bureau of Shipping. There is an organization now that tends to regulate the loading of vessels in the port of New York—the Board of Underwriters of New York; but there is no plimsoll line mark, of course, upon steamers, and they go by their own rules for loading. That, of course, is a great safeguard for many of the vessels loading from this port, but there is no law which makes it necessary for the vessels to be loaded under the supervision of the Board of Underwriters of New York.

Mr. EDMONDS. As I understand it now, we are the only large nation with a large merchant marine that does not use the load line?

Mr. PARSONS. That is the way I understand it. I think I am correct on that.

Mr. EDMONDS. Japan does, doesn't she?

Mr. PARSONS. I am not sure about that.

Mr. EDMONDS. I am not sure, either. The only use for that, of course, would be to insure the safety of the ship, and naturally it would be to the advantage of the insurance men.

Mr. PARSONS. Not only the safety of the ship, but the condition of the cargo. A vessel might possibly get in and still have a damaged cargo because she was too heavily laden.

Mr. EDMONDS. What do you think about Mr. Hurley's proposition to insure part of the hulls?

Mr. PARSONS. As I understand it the Government has never effected insurance on its own property before, and Mr. Hurley, I think, was simply carrying out, as I understand his proposition, the general thought of his Government in not effecting insurance in outside companies. In other words, it was carrying the insurance itself. I think the only exception is when the United States Navy insured builder's risks in foreign companies. I thought Mr. Hurley's idea was to carry out the general plan of the Government in not placing insurance in outside companies. I did not know he had a plan for instituting an American insurance bureau.

Mr. EDMONDS. Yes; he has a plan that all ships sold by the Shipping Board, that the Government's interest in that ship should be insured by self-insurance; that is what it is, virtually.

Mr. PARSONS. Yes; but only insuring the retained interest of the Government.

Mr. EDMONDS. That is right.

Mr. PARSONS. In other words, that the Government's property should not be insured outside.

Mr. EDMONDS. That is right. Then the United States Government might have—Mr. Hurley makes the claim; he made it before this committee, that if we were to do that, the American insurance companies would gradually grow to the point where they would absorb the entire insurance. In other words, if they took a 75 per cent mortgage on a ship and insured it themselves, the next year it would only be a 50 per cent mortgage, and naturally there would be 50 per cent go outside and 50 per cent put in the Government. Now, if the Government were to do that, would it lead to an absorption of the insurance gradually by the American insurance companies, and an enlargement of the companies to take care of it, or would the companies be better off if we unloaded the whole thing on them to-day and let them expand? Wouldn't they blow up if they were expanded suddenly?

Mr. PARSONS. I think they would all blow up if they took the insurance on all of the ships at the rate suggested. I do not think we would have any American underwriters at the end of a few years.

Mr. EDMONDS. Then, perhaps, it would be better if we let Mr. Hurley's plan go through and let the insurance be absorbed gradually by the outside companies.

Mr. PARSONS. I think if the companies took the insurance on all of the ships at the rate suggested there would not be any marine insurance companies, in my opinion, at the end of a few years.

Mr. EDMONDS. I presume what would happen would be, of course, if we were to turn it loose to these companies to be insured, that the insurance would float naturally across the water—that the insurance would go wherever it has been going. I do not know what would happen after that, and I do not like to see that.

Mr. PARSONS. I think that would largely be a question of supply and demand and rate as to where the insurance would go.

Mr. EDMONDS. That is what I say.

Mr. PARSONS. I think the foreign companies would absorb a large proportion of it.

Mr. EDMONDS. Then I am afraid there would happen just exactly what happened after the Civil War; it would stay there.

Mr. PARSONS. It would not stay there unless the business were profitable, and if the business were placed on a basis that would render it profitable a large portion of it would be here without question.

Mr. EDMONDS. Would it be better to let go of all these ships just as fast as we can and not do any insurance at all, or would it be better to hold onto the ships a little bit until you folks get stabilized? I don't suppose it would make any difference then; that it would still go where the rates were lowest?

Mr. PARSONS. Judging from past experience, it would. It would go where it found the lowest rate, but that rate would not of necessity be of benefit to the marine underwriters.

Mr. EDMONDS. No; it would not; but would it not help our American marine underwriters if we kept it down and told Mr. Hurley to go ahead and keep up his insurance company and insure the interest: you folks would be no worse off or better off than you are at the present time. Some day you might be, but I do not know when that would be.

Mr. PARSONS. I think, of course, the insurance on all these vessels would be largely a question of experience as to what the proper rate should be for them.

Mr. EDMONDS. Of course it could be required in the sale of the ship (but then it might interfere with the sale of the ship) that a man in buying a ship must insure that ship in an American insurance company, and that no underwriting or rewriting at all should be made in any but an American company. That could be done, but that again might interfere with the sale of the ship, though naturally the business would come to the American companies.

Mr. PARSONS. Yes.

Mr. EDMONDS. They would have to expand to take care of it or would have to take care of it in some way or other, or they could not take care of it—either one. And as long as we required that it should be in an American company, they could collect a rate that was commensurate with the risk, which would be a very nice thing for the insurance companies in this country, I presume. But I am very much afraid if we were to do that the man who was buying the ships might probably object to being tied down that way, and it is really no detriment to the American insurance companies for us to keep up this Government insurance company. That is the way it looks to me.

Mr. PARSONS. With respect to this particular lot of ships you mean, or generally?

Mr. EDMONDS. With respect to this particular lot of ships. Mr. Hurley did not want to go outside of those; he simply wanted to keep his finger on the insurance for the Government ships, because he said you folks could not digest the insurance. It appears you may digest it, but it is not very good food to eat; it would give you indigestion if you ate it. Therefore it would go to the London market. And in that case in order to keep this premium money here I suppose we had just better start up a small Government company

down here and take care of the insurance a little bit until you folks can say you can eat such strong food.

Mr. PARSONS. I do not think it would be necessary to go to the London market unless the rate were established by the Government at an unusually low interest rate. I think the American market could absorb a great deal of this business at a commensurate rate.

Mr. EDMONDS. I think that is true. But if you were left alone I do not think it would stay here at the present time. Naturally, we are opposed to Government ownership——

Mr. PARSONS. I think we are all opposed to Government ownership.

Mr. EDMONDS. Yes; and I do not think we want to see it started. But certainly I do not want to stand in the road of a proposition that is not going to benefit Americans. That is the way I feel about it. If Mr. Hurley thinks that is a good thing, and if Mr. Payne thinks that is a good thing, I am not going to stand in the road of it if it is not going to benefit American companies if we are going to pay possibly a hundred or two hundred million dollars a year in premiums to foreign companies. I would just as leave see it stay in the United States Treasury, whatever profit there would be in it, and possibly it might be just as well that we do that.

There is a suggestion here, Mr. Parsons, of supervising packages; you do that in New York now, don't you, to a certain extent?

Mr. PARSONS. Yes; to a certain extent it is done in New York, but not to a very appreciable extent.

Mr. CHINDBLOM. Is it done to a larger extent in other places—in other countries?

Mr. PARSONS. I do not think so; not to my knowledge.

Mr. EDMONDS. No: it is the inexperience of the American shipper that is making trouble nowadays. Have you done anything along an educational line—any of your insurance companies—to show people how to pack goods for certain countries?

Mr. PARSONS. Oh, yes. Our inspectors very frequently visit the warehouses where the goods are boxed and cased and give them suggestion as to how they should be cased for export. Of course they have no control over the import business, which is generally a large business.

Mr. EDMONDS. The import business is generally taken better care of than the export business, because most of our people are inexperienced in the export business?

Mr. PARSONS. I would not say that, because recently, on the goods sent over from the other side, the casing is very inferior, and I think possibly the packing done on this side is better.

Mr. EDMONDS. And that will improve as time goes on.

Mr. PARSONS. It is to be hoped it will.

Mr. EDMONDS. Our people are learning very fast. There is nothing that can be done to meet that situation that I know of. We certainly could not improve foreign packages coming in here, and if you folks take it up educationally it may improve the quality of the packages going out.

Mr. PARSONS. They are going to begin to improve the packing of the incoming freight for this reason: Many of the shippers are asking us to insure the risk of pilferage on the various commodities coming over from the other side, and we can only consider insuring

the risk of pilferage where the goods are properly packed and the packages secure. And it is almost essential at the present time that pilferage insurance should be granted; and, if you refuse to grant it, it of necessity works to the betterment of the package.

Mr. CHINDBLOM. You are refusing to grant that?

Mr. PARSONS. We are; so far as we find there is carelessness in the packing of the goods we are refusing to grant that insurance. So in that way an effort is being made to improve the character of the package on the incoming commodities.

Mr. EDMONDS. What has influenced the increase in the rates on pilferage lately?

Mr. PARSONS. It is difficult to assign any one cause, but I think the inadequate packing is accountable for it. It is very easy to rob a case of goods that is improperly packed.

Mr. CHINDBLOM. Has the quality of the crews improved?

Mr. PARSONS. Oh, yes; I think the crews are generally very much better; but it is not established that the crews do all the pilfering, by any means.

Mr. CHINDBLOM. With respect to the pilfering done, it must be done on the ship?

Mr. PARSONS. Not necessarily; no.

Mr. CHINDBLOM. It is done before the goods reach the ship, and after they leave the ship?

Mr. PARSONS. It is done after they leave the ship, and it is very often done, I think, in the public stores.

Mr. CHINDBLOM. Is that on account of the poor packages?

Mr. PARSONS. Largely so, because of the facility of getting into them.

Mr. EDMONDS. A man sees something he wants, and he takes it?

Mr. PARSONS. He takes it; and nails up the box very easily.

Mr. EDMONDS. I suppose you take care of that in your rate, too? Do you make a rate for pilferage?

Mr. PARSONS. We make a rate, but we have found the rate we can charge is inadequate in proportion to the losses we have to pay.

Mr. EDMONDS. So you do not do any pilfering insurance?

Mr. PARSONS. We do pilfering insurance—but at a loss.

Mr. EDMONDS. Do you think a load-line law having to do only with registered ships would be useful?

Mr. PARSONS. I think a load-line law, any load-line law, would be useful; but I think——

Mr. EDMONDS. Because I think we can get that, you see; and that is the reason I am asking you the question. I am afraid we will have a fight on the coastwise end, and how would it do to take it piecemeal and put one through at a time?

Mr. PARSONS. I, personally, do not believe in making two bites at a cherry. I think you ought to put the whole thing through.

Mr. EDMONDS. I know you don't; but we may have to do that.

Mr. PARSONS. I think it is so essential to have it on all vessels.

Mr. EDMONDS. I agree with you there, and I am personally willing, myself, to take it as far as I can; but I know what we are up against, and I was just wondering if it would be useful if we started to get half of it at this time, and then took the other half and fought over it.

Mr. PARSONS. That would be a question of expediency. Of course, I can not answer that question; but I do think it is so essential to put it on.

Mr. EDMONDS. They have a load line on the Lakes?

Mr. PARSONS. No.

Mr. EDMONDS. Haven't they got one on the Lakes, either? They just load the ship down in good weather and put her under water and run with the smokestack sticking up?

Mr. CHUBB. The Great Lakes Protective Association, made up of steamship owners, have some method of regulating the draft—I think particularly with regard to the amount of water over the shoal box, and it is worked out in that way.

Mr. EDMONDS. Do you want to make any other statement?

Mr. PARSONS. No; I think not.

Mr. EDMONDS. All right, then; we will excuse you, and we thank you very much.

TESTIMONY OF MR. CHARLES E. MATHER, OF PHILADELPHIA, PHILADELPHIA REPRESENTATIVE OF THE ATLANTIC MUTUAL, THE AETNA OF HARTFORD, THE BOSTON MARINE, AND THE PROVIDENCE-WASHINGTON.

(The witness affirmed.)

Mr. EDMONDS. Mr. Mather, I think you are the first gentleman we have had before us in the brokerage line, unless Mr. McGee is in the brokerage line. No; he has an agency line.

Mr. CHINDBLOM. I think he has insisted he is not a broker. Is that right, Mr. McGee?

Mr. MCGEE. Sir?

Mr. CHINDBLOM. You are not a broker?

Mr. MCGEE. I am not a broker.

Mr. CHINDBLOM. I say I think you have insisted you are not a broker?

Mr. MCGEE. Insisted and persisted.

Mr. EDMONDS. I think you are the first person who has been before us of the brokerage line, and we would be glad to have you tell us something of your troubles. The other folks have been telling us of their troubles. I do not suppose you have any; you seem to be the wicked end of the line; you raise all the trouble. I do not mean you personally, but your line.

Mr. MATHER. Mr. Chairman, I am very glad, indeed, to tell you what I know about it.

Mr. EDMONDS. About them or about it?

Mr. MATHER. About it—the subject.

Mr. EDMONDS. I thought you were going to tell us about these insurance companies?

Mr. MATHER. I would not dare to do that in the presence of so many of them. I am both an agent and a broker. As Mr. Parsons has told you that they have representatives, I am the representative of the Atlantic Mutual at Philadelphia, the Aetna of Hartford, the Boston Marine, and the Providence-Washington, and those are American companies for which I underwrite every day. I am also at the same time the agent of the British and Foreign Marine and

the Commercial Union, two British companies. I think I have been agent for the British and Foreign Marine since 1879.

Now, what you want to know especially, I suppose, is the question of foreign insurance and domestic?

Mr. EDMONDS. Yes. We would like to get a general idea.

Mr. MATHER. My idea about that is this: The domestic companies have very greatly increased in number in the last few years. When I first engaged in business I do not think there were quite half a dozen of them in the United States. You know now the large number.

On the subject of the London market, independent of whether you represent companies or whether you do not, you are asked by a merchant owning a fleet of vessels to do the best you can for him. He has a $10,000,000 fleet. One per cent on that is $100,000. Some of the large fleets have not made $100,000, some of these coastwise fleets, for a good many years. He must have the lowest rate. You find with the agents and with the companies a difference of opinions. You go to London and you will find the same difference of opinion there. My choice is always to give the business to the American market at equal rates. That is not only my preference, but there is more money in it to me—more money; double the commission.

Mr. EDMONDS. And you are safer protected here, too?

Mr. MATHER. I do not feel that way, sir. I have not lost a penny on foreign insurance in many years. Now, I believe that any office in the United States of any size, almost daily, sends a cablegram to London for reinsurance. If they are doing any businuess at all, they do it very freely. I know there is not a day passes in our office that 8 to 10 do not go.

I want to tell you that the London market is a necessity to this country. Without Lloyd's underwriters the world would be almost at a standstill. It is the great competitive market of the world—Lloyd's London room. I am surprised that none of these gentlemen have recognized that fact. It is true; it is the great truth; they have the market of the world there. They have a great spread of business; it comes in from all over, everywhere. A London broker has cables from all over the world, every morning, to place insurance. We do not have that in New York; we have American business. That is the point; it is the great point. It is necessity.

Now, you speak of builder's insurance on vessels building by builders for the Navy. They have always been insured by these builders. I have insured a good many of them for a number of years, and I have always given the American market all they would write. Until just recently the American market did not go much above $1,000,000, if they went that far.

Mr. EDMONDS. On builder's risk?

Mr. MATHER. On builder's risk. Recently it has been greatly increased, and recently, in New York, 19 destroyers at $1,500,000 apiece were done all in New York. Yesterday I had occasion to place two boats of $6,000,000 each for the Government, and on account of the New York agencies having lines upon these other 19 building at the same yard, the most that we could get in America on those two vessels was $2,500,000 each. The other $3,500,000, after exhausting the markets of America, I cabled to London last night. Without that

market, gentlemen, we would practically be at the mercy of a few men in this country who are experienced marine underwriters.

I am speaking now as I feel and as the owner of a vessel would feel and as they do feel. You have had a great representation here as you say, Mr. Chairman, of the underwriters of this country. If you had got the men who own the vessels here they would have told you that they must have the lowest market. There is no escaping from it.

Mr. EDMONDS. I think that is recognized; we recognize that.

Mr. MATHER. Yes; they must have it.

Mr. EDMONDS. That is a matter of vital interest?

Mr. MATHER. We do not go there from choice; we go there from necessity, and we must go there constantly—daily and hourly. Hourly! And I believe that every office and every man in this room in the insurance business is doing business almost daily—sends cablegrams to London for reinsurance almost as a daily proposition.

Mr. EDMONDS. Our returns would show a great deal of business going over there all the time.

Mr. MATHER. Surely. It goes from necessity. And so long as the American market could take it, it would all be taken.

There was something said about reinsurance in London, that is, the proposition of reinsuring in London. I would let every American company reinsure all they wanted in London; let them have the spread of business; let them exchange reinsurance if they can do it. Anything that the American companies can do that will make for the exchange of insurance with London is what they want to do, is what they all should do. But for many years some of them who are purely American would not encourage that particularly, others are represented abroad, and so on.

Mr. EDMONDS. Does reinsurance bring about much exchange in the business?

Mr. MATHER. It would bring about much exchange in the business.

Mr. EDMONDS. It would, but it has not——

Mr. MATHER. It has not been, largely because there has not been the market here for it. We will take, say a builder's risk, and take British and foreign: I will write $50,000 in Philadelphia; I will give the New York office $50,000 (my account and their's are separate), and I will send it to the London office and they will write $50,000. Now, we have $150,000 on that ship in that one company. Each of those offices has written all it can take, and they are all different accounts—separate accounts. If that ship is two or three years building, the London office will take a second $50,000 and put it into next year's account. Now, I would not have the London office of any company deprived of writing all they can write on American business, whether they have an agent here, or whether they have not, for those reasons.

This is not fire insurance; fire insurance is a different proposition altogether. Marine insurance is a competitive business with all the world, and you can not by any legislation say that American owners shall insure their vessels in the United States. You can not by legislation improve the condition of the American companies; it can not be done. Why, an owner of a fleet of ships writes to a broker in London: "Do this for me," and where are you? It is only a matter of two cents or three cents postage to do it. And believe me, they

pay as quickly as American companies do. I have not had a loss in the last 10 years where I have collected any quicker from American companies than I have from the English. The fact of the matter is, that they rely a good deal upon whether they are settling up over there or not. What does the English market say about this? That is in the mouth of every man. What is the market to-day in London? And why London? Because London is the center of the world for marine insurance. We would like to have New York the center. I am an American—a thorough American. I had two boys who fought in the war. My family came to Pennsylvania in 1682. You see, I am all American. But I want to tell you that this question of insurance is not an American proposition at all; it is a world proposition. You gentlemen are dealing with a very big and broad subject—a very big and broad subject. You all know that a man buying a cargo on the other side, can insure it over there or he can insure it here.

Something has been said about a proposition about exports—companies to insure exports. There is nothing in that.

Mr. EDWARDS. No; we are talking about exporting of insurance.

Mr. MATHER. Oh, the exporting of insurance?

Mr. EDMONDS. Yes.

Mr. MATHER. I thought you were talking about insurance on exports.

Mr. EDMONDS. What we have been talking about, Mr. Mather, is this——

Mr. MATHER. I understand that now.

Mr. EDMONDS (continuing). Insurance that is exported.

Mr. MATHER. Yes.

Mr. EDMONDS. And it does not pay a proper tax here?

Mr. MATHER. No.

Mr. EDMONDS. And is that not an unjust situation against our companies?

Mr. MATHER. Now I understand that. But I further understand that at the present time everything that we place there the policies come back here and we pay a per cent tax on them. That is the law to-day.

Mr. EDMONDS. That is the law, but these exported policies never come back.

Mr. MATHER. The exported policies?

Mr. EDMONDS. No.

Mr. MATHER. Well, the account comes back here. I do not think there is much insured from this side; I do not think there is much export business, you understand, goods—I do not think there is a very large amount really that is insured on the other side on orders from here.

Mr. EDMONDS. No; I do not think so. It is on the hulls, I think, mostly.

Mr. MATHER. That is the fault entirely of the American Government on hulls. No broker goes abroad for an American hull until he has exhausted this market at the rates they write it. If he finds the market in London is a quarter per cent of a half per cent lower, he takes it. He must take it. Why take it on $15,000,000, 1 per cent is $150,000. Do you think any owner would hesitate for a moment whether to save that $150,000 in London or to pay it here?

London to-day is issuing policies in dollars. Something has been said about the exchange being lower; they are issuing policies in dollars to-day and there is no loss in exchange. No; I will tell you that the American company, that freedom from any legislation, freedom of action is the best course.

Mr. EDMONDS. Now, Mr. Mather, you have had a long experience in the insurance line?

Mr. MATHER. Fifty years.

Mr. EDMONDS. What is the situation to-day compared with what it was 10 years ago?

Mr. MATHER. I believe it is altogether better. The amount of business that is done here to-day, in my opinion, is greatly in excess of what it was. One gentleman told me to-day that their business had increased a million dollars a year. Take all of the large marine companies and, if you look at their figures, you will find they are very much greater in volume. The increase in the number of companies is the best evidence of that. They will take care of themselves. We can not legislate for the fellow who does not know how to underwrite; we can not do that. But if you will take the Boston or take the Atlantic Mutual of New York or take the North American of Philadelphia, what do you find? They have all increased, largely increased, their assets and surplus and all the rest of it. And that is what has encouraged the fire companies to come into the game. And they must stand on their own bottoms.

Mr. CHINDBLOM. Briefly, your attitude is to leave well enough alone; is that right?

Mr. MATHER. That is my recommendation. You can not benefit this business one iota by legislation. You can benefit it by the load line. You can do that. But I can not conceive how any American company can be benefited by any preferential law to benefit them—so-called beneficial law.

Mr. EDMONDS. We are not talking about preferential laws, because in an international business of this character a preferential law would simply mean the business would go to the other country and would not come here.

Mr. MATHER. Exactly. Now, if it is not a preferential law, what is the use of having any?

Mr. EDMONDS. Because it seems to me it might be helped by a little supervision.

Mr. MATHER. I think they are already suffering from too much supervision to-day, Mr. Chairman. Take the State of Massachusetts, and the State of New York, their supervision is of the very best and so long as that supervision exists, I do not see the necessity for any other; but I admit if we could have one law, one United States law, where they made their one report, it would be vastly better for them all.

Mr. EDMONDS. Do you come under the insurance supervision too, as a broker?

Mr. MATHER. Oh, yes, indeed. We can not place any fire insurance except by application to the insurance commissioner of Pennsylvania, that the particular risk that we want to place, that the market of this country is exhausted, then he will give us a license and we pay a tax. There is nothing of that kind in marine insurance. Everybody is free to do it wherever they wish to do it.

Mr. EDMONDS. It is an international business, and naturally has to be.

Mr. MATHER. It is international. But in fire—take fire insurance for instance—no one ever thinks of any one going abroad for fire insurance except for excess lines. We are satisfied with the rates that are made in this country. But that is a different matter from marine insurance which is a competitive world insurance, and necessarily must be.

Mr. EDMONDS. You have an office here, and you have an office in London and you know something about what they do in England and what they do here. Do they do anything over in England that you could tell us, that is different from the way we do it over here, that is an advantage to the business generally?

Mr. MATHER. I can not say that I can, because the offices here are well located and well supplied. They probably pay higher wages here than they do over there, and I do not think that their employees as a whole are quite as expert. London will have more expert men at a lower price than we can get them for here, because there they have been brought up to it and here there has been such an increase in demand for employees in marine companies of late that wages have gone up very considerably. But I will say this, that Lloyd's rules, their simple methods, you know, of doing business, lend themselves to a low cost.

Mr. EDMONDS. I think that is true of Lloyd's, but Lloyd's can not write all the insurance and does not write all the insurance.

Mr. MATHER. No, they do not. But the marine companies have an easier way of doing business. I can not say exactly what it is, but they seem to go along very quietly and very pleasantly. The business is all handled very largely by brokers over there who understand the game, and I can only say that they seem to get along at a lower expense ratio and they never seem to be excited or in a hurry. I have spent weeks at a time in London, and they go along quietly and accomplish the result.

Mr. EDMONDS. There is no question about their accomplishing the result when they get two-thirds of our marine insurance over here.

Mr. MATHER. I can not say what per cent they get.

Mr. EDMONDS. It was in the statement made yesterday. You will probably get it in the hearings.

Mr. MATHER. About two-thirds?

Mr. EDMONDS. About two-thirds.

Mr. MATHER. I should certainly say for hulls, that they do get it.

Mr. EDMONDS. That does not count export insurance, because we could get no record of that. Probably you could add a very fair sum on top of that two-thirds, if you included that.

Mr. MATHER. I do not think there is much cargo insurance cabled abroad, that can be handled in this country.

Mr. EDMONDS. And it can fairly well be handled now, can it not?

Mr. MATHER. As a rule, there is no trouble about handling cargo. I do not think there is much of that handled by cable except the companies themselves get large lines, and they will reinsure; but if the rate is not right, then the other side will handle it; the receiver will handle it if the rate is not right.

Mr. EDMONDS. I understand in doing business——

Mr. MATHER. Things will be sold cost and freight, or cost, freight and insurance. If they are sold cost and freight, the merchant on the other side attends to the insurance; that is all.

Mr. EDMONDS. I understand an American broker doing business with a London company or with an English company is required to produce the money for the insurance very quickly as compared with what time the American companies make him produce the money?

Mr. MATHER. I do not quite catch that.

Mr. EDMONDS. If the American broker insures in England——

Mr. MATHER. Yes.

Mr. EDMONDS. He has to pay the premium very quickly to the English company—on very short terms?

Mr. MATHER. He pays on the first of every month.

Mr. EDMONDS. And the American companies generally have to wait quite a little while for their money?

Mr. MATHER. Yes; that is often so. But the question as to when it is paid for does not enter into the proposition.

Mr. EDMONDS. Does the rebate business go on over there the same as it does over here?

Mr. MATHER. Do you mean to say the 10 per cent?

Mr. EDMONDS. The adjustment that may be made between the broker and his customer.

Mr. MATHER. I should say over there—you know the English companies allow 5 per cent brokerage and 10 per cent on top of that, and that 10 per cent, I think, always goes to the assured. It does with me always, here. I never keep the 15 per cent unless it is on small matters.

Mr. EDMONDS. Did you ever get in that shape where you went out and paid a man to let you do his insurance? We heard of that yesterday.

Mr. MATHER. How is that?

Mr. EDMONDS. Did you ever pay a man for the privilege of doing his insurance business?

Mr. MATHER. No, sir; I have never done that.

Mr. EDMONDS. You have not reached that point?

Mr. MATHER. No. I calculate on being paid for my insurance every time. But the 10 per cent, I would feel I was robbing a man if I did not give that to him.

Mr. EDMONDS. Over here you are allowed to do the same thing?

Mr. MATHER. Oh, yes. Here it is 5 and 10, and the 10 always goes to the assured, unless it might be some little, trivial matter. The 10 per cent always goes to the assured. Now, if we would make 5 per cent, we would be doing fairly well. More often we make only $2\frac{1}{2}$. That is the hull rate. The commission on a cargo here is usually 10 per cent. It is 10 and 5 on cargo here.

Mr. EDMONDS. They still keep 5 and 10 on English?

Mr. MATHER. The English would be 5 and 10.

Mr. CHINDBLOM. On cargo?

Mr. MATHER. On cargo; yes.

Mr. CHINDBLOM. And on the hull?

Mr. MATHER. On the hull it is the same thing—both places.

Mr. EDMONDS. Do you get that when you write through Lloyds', too?

Mr. MATHER. The London broker gets 5 and 10, and he shares his brokerage commission with us. We make 2½ per cent each between us. This 5 per cent is divided. That may not be true with all, but it is true with us.

Mr. EDMONDS. Of course it is perfectly legal?

Mr. MATHER. Oh, that is a legitimate proposition.

Mr. CHINDBLOM. Did I understand you to say you gave the 10 per cent to the assured?

Mr. MATHER. Always; invariably. I am speaking now of large transactions. That is the rule.

Mr. EDMONDS. Do either English or American companies try to get you to divert business from one company to another and pay you extra commissions for that?

Mr. MATHER. No; I have never had any experience of that kind. They do what they can with what you send them, but I have never had any request of that character.

Mr. EDMONDS. It is stated here in some cases the brokers got excess commissions if they would divert certain lines.

Mr. MATHER. I never did.

Mr. EDMONDS. If they would divert certain lines of business that they were writing from one channel to another channel?

Mr. MATHER. We only send what we can not do on precisely the same terms as in America. If we can do it here it never goes.

Mr. EDMONDS. That is a very nice spirit and a very good spirit, and I hope we all have that.

Do you think pooling companies would help the American companies any?

Mr. MATHER. Pooling?

Mr. EDMONDS. Yes.

Mr. MATHER. I do not think it can be done. It can be done in one or two lines of business, such as this burlap and so on, but in general business I do not think it is a feasible proposition. It never has been. One man will write what another man will discard, and he will write it at different rates and on different terms, because nearly everything stands on its own basis; there are hardly any two things that are just alike.

Mr. EDMONDS. You are another one of the burlap pool, aren't you?

Mr. MATHER. I think I have an interest in the burlap pool; yes, I think I have.

Mr. EDMONDS. Yes; you have four shares.

Mr. MATHER. Yes.

Mr. EDMONDS. Somebody let you have that. Somebody had 17 and they wanted to let you in and they gave you four. It seems it was Mr. Simpson, wasn't it?

Mr. MATHER. I think I have an interest in the British and Foreign. We are agents as well as brokers and we do a large amount of agency business, and we do burlap business, so they gave us a per cent of it for the British and Foreign and we put all of our burlap business in that company. In fact, it already was in that company.

Mr. EDMONDS. I think it is a good, legitimate proposition myself. I do not see anything wrong with it.

Mr. MATHER. No.

Mr. EDMONDS. The only thing is when the list was examined it is peculiar to see your firm along with them.

Mr. MATHER. I am always for a good move to assist anything that can be done for the marine underwriters in general. I am always for it.

Mr. EDMONDS. Suppose you come along and give us some good suggestions.

Mr. MATHER. My suggestion is simply this, that at the present time or at any future time, so far as I can see the future, there is so much competition in the marine business that the very best thing you can do for it is to leave it alone. Because you do not want to build up a monopoly against the assured. Now, mark you, that is my opinion.

Mr. EDMONDS. You can not build it up?

Mr. MATHER. You can not do that, gentlemen. The commerce of this country is too great. We have the underwriters here and all this business, and you can not build up a hard and fast proposition to force Americans to pay more money for marine insurance. You will tend to destroy commerce if you do that. The companies are only a small element; the men who pay these premiums, they are the men—they are the people. You talk to a man who owns $10,000,000 of ships, as I did the other day to one with $25,000,000 of ships, and now I want to tell you it is a big proposition whether he pays 3½ or whether he pays 4 per cent. You see, a half a per cent on that amount of money is a big lot of money. And these coastwise lines to-day are all in distress. They are in distress.

Mr. CHINDBLOM. Why?

Mr. MATHER. The freights are not sufficient to meet their expenses; that is their difficulty. They have had the increase in expenses, and they have not been allowed to pass a penny more on to their freights. The coal bills are heavier and all their expenses are heavier. And when the question of insurance comes around, and it is a big sum of money, I want to tell you they deal with you very sharply; they have to be assured that is the last word.

Mr. EDMONDS. They handle their insurance on a pretty loose sort of policy; isn't it in a blanket policy?

Mr. MATHER. No; they make a schedule of values.

Mr. EDMONDS. On each voyage?

Mr. MATHER. Oh, no; I am speaking of hulls now. No; cargoes are done under open policies. I am speaking now of the hulls. They deal very closely, on account of what they pay for rates. Now, that is a very important thing. That is on the hulls. Anything you say or do that will oblige those people to insure their hulls in America is a very dangerous thing to attempt to do.

Now, I have the highest regard for all the underwriters in this room, personally and otherwise, but I will tell you human nature is human nature, and if you put through a bill that will make the hull owners in America insure them in America, they are going to make rates which they think will pay them. And I want to tell you the man who pays that rate has some say as to what that rate should be. It would not be right to allow half a dozen men—they may be the best-posted men in the country: but I want to tell you human nature

is such that if you give them the power you can not say just what they will do. They may want to help you; there may be half a dozen men who want to do it. But you are sitting around the board and there will be a dozen men there, and eight or ten or six or eight will say, "Oh, well; we have had a bad experience, and this rate must be so-and-so." You can not do that, gentlemen; you can not impose that upon the vessel owner of the United States. It can not be done. He must have the market of the world wherever that may be.

Mr. CHINDBLOM. You do not mean that the purchaser of an insurance is consulted in any other way except that he has the privilege of going around to find the cheapest rate?

Mr. MATHER. That is it; that is all; and he must have that right. If you make a law that he must insure in American companies, then you are doing that man an injury.

Mr. CHINDBLOM. The question that I can see is not so much the establishment of any regulation of rates. Of course, your position is perfectly good either way. If the American insurance companies go out of business, of course you will continue to insure in English companies, and so will every other agent, because he has no other place to go to sell his goods.

Mr. MATHER. I do not want to drive them out of business.

Mr. EDMONDS. Oh, no.

Mr. MATHER. But what I want them to do is to do it as low as the insurance market of the world will do it.

Mr. EDMONDS. What we are driving at and want to have is to see whether we can not get our companies in such shape that they can do it as low as anybody else and hold down the business.

Mr. MATHER. It can only be done by companies then, Mr. Edmonds.

Mr. CHINDBLOM. What has been your experience? Have the American companies in your opinion heretofore made as low rates as would be compatible with all the elements involved?

Mr. MATHER. I can say the Atlantic Mutual has done it.

Mr. CHINDBLOM. That is only one of them.

Mr. MATHER. I know that company has done it.

Mr. CHINDBLOM. What about the rest?

Mr. MATHER. I have usually been able to get from Chubb & Son, not always—I have usually done a certain per cent in America on every hull I have placed.

Mr. CHINDBLOM. Do you think you get as low rates as they can give in justice to their own interests?

Mr. MATHER. I think so.

Mr. CHINDBLOM. Generally speaking.

Mr. MATHER. I think so; because I tell them "This is what London has done; I am sorry; I would like to give you more but I can not do it; What will you do?"

Mr. CHINDBLOM. Do you give them a chance to meet London?

Mr. MATHER. I do every time. And more than that, I never place over 50 per cent of a fleet in London; I always keep 50 per cent of a fleet for this country.

Mr. EDMONDS. It was testified you had all the insurance of the Navy Department during the war at a time when it was very hard to get insurance here, and that you decided—I think the testimony was to place all of it on the other side. Was that right?

Mr. MATHER. I have heard gentlemen state that here, but I do not think they were conversant with the facts. I never placed the whole line on any vessel abroad. I have always written these builder's risks at Philadelphia with the companies that would write them. I have done it largely with the North American and largely with Chubb. It is true that the Atlantic have not written builder's risk freely for some reason; I do not know exactly why. But I have always placed a certain per cent in the United States; all that we could do on the terms that were offered.

Mr. CHINDBLOM. These Navy boats in mind now in Mr. Edmond's question, how much of the insurance on those boats was placed with American companies?

Mr. MATHER. You are speaking now of the vessels building for the United States Navy?

Mr. CHINDBLOM. Yes.

Mr. MATHER. As I told you, the one reason the American companies have broadened out on that score, a number of the fire companies that heretofore did not look at those risks have come around and said they would write them. The 19 steamers of a million and a half each were all done in this country. Then after that I had two or three of two millions, and I did them all in this country. And then lately I have had three or four of six millions each, battle cruisers, and we tried to do every penny we could in this country and we got two millions and a half. Now, I think if these people had not been pretty full on the other boats, they would probably have taken more. But you see if a man has 19 boats at a million and half apiece, building at one yard, there is a limit to his capacity.

Mr. EDMONDS. He has his line filled up and he does not want to go any further?

Mr. MATHER. No. Now, we get a $12,000,000 boat, and of necessity we must do a good deal of that abroad. If I get a $12,000,000 boat and my own people are not full on that yard, I might do four or five millions here.

Mr. EDMONDS. In going abroad you do not confine yourself to English companies?

Mr. MATHER. I take whatever my London people, who are very careful people, give me. They do not give me French, they do not give me German, they do not give me continental companies, except those represented in London in reinsurance offices. I have never lost anything through dealing with that office.

Mr. CHINDBLOM. Do you get much Japanese?

Mr. MATHER. No.

Mr. CHINDBLOM. What do you get outside of English?

Mr. MATHER. You get a certain number of Norwegian, a few French—a very few—and you did before the war get a certain number of continental companies, high class, but none since.

Mr. CHINDBLOM. What do you mean by "continental"?

Mr. MATHER. I mean by that German, Austrian, and so on, you know. We get some Swiss companies, but very few Italian or Spanish. Practically, we deal very little with anything on the Continent. I do not take the French and Spanish offices whatever. I do not think we know enough about them.

Mr. CHINDBLOM. Was there before the war much Russian money in this business?

Mr. MATHER. Well, one or two companies; yes—the Rossia was one. There was not much. There were one or two, but they were never very much of a factor.

Mr. EDMONDS. Mr. Mather, when you take a policy, or when you have some insurance brought to your office, do you have the rate right there to give them?

Mr. MATHER. Let me explain that.

Mr. EDMONDS. Suppose I came into your office and wanted to insure a cargo.

Mr. MATHER. Yes.

Mr. EDMONDS. Could you give me a rate right off for it?

Mr. MATHER. Oh, yes.

Mr. EDMONDS. How is that rate made up?

Mr. MATHER. It is really made up from your experience of what the market is. If the vessel was an unusual one, a sailing vessel, or a steamer that was a little off, I would not give it to you right off; I would look at the vessel very carefully, see how much you wanted, and all that. Every case, of course, is subject to its own decision. An experienced underwriter would know right away if it was a first-class risk or if it was not. If it is by a good line steamer, of course, he would take it at once. If its is a boat he does not know, he has to look at it pretty carefully.

Mr. EDMONDS. Then you take the policy, having taken it on your experience, which is a first-class experience, you take the policy to some company?

Mr. MATHER. That is it.

Mr. EDMONDS. And you want that company to place it at the rate you took it. Do you have to fight with them about the rate?

Mr. MATHER. I am acting in the capacity of a broker; I do not do any underwriting myself. I used to do it, but now I have two or three men who sit there and underwrite, and they have all these facts before them. They treat everything separately. If they come to me, it is on some general proposition. If the man calls me and says, "I want a big line of insurance," I will have to consider what the market is. If I know, I will tell him right off, "It is so-and-so." You understand. Then he will leave it with me perhaps to do it at about that rate. Those are all matters that are special, but usually the rates do not differ much. But if the account is pretty fine maybe 5 or 10 cents will be the toss whether he will do it or not.

Mr. EDMONDS. It seems to me it is a very expert business.

Mr. MATHER. It is a very expert business, and you will probably not find any two underwriters exactly agreeing on the proposition. If you go and talk to one man, he will say "my thought about it is so and so," and you show him what you are doing about it, and if you get two or three good leaders the others will follow along. A good leader is an important thing in this business, you know, the same as it is in London. There a man is a leader in one line of business, and he will lead that line. They have a very simple way of doing things there. If it is hull, you will try to get one or two of the hull leaders, and if you have a leader a man will have no trouble. On some other business you will go to some other. There are men who are experts along different lines, different trades. They will each lead in a certain business. A good leader is almost essential.

Mr. EDMONDS. Can we not get more men expert in this line than we have?

Mr. MATHER. I think we have more expert men to-day than we ever had, because we have more companies, we have more underwriters, and while I recognize that the last few months have been rather troublesome, because you know they have had some pretty heavy losses just recently, still, on the whole, I feel that the business of marine insurance to-day is in a very healthy condition. The rates are low, but they have been through profitable years during the war, in the war element. They have not done so well perhaps in the marine, but I do not think there is anything to complain of.

Mr. EDMONDS. It is suggested that the adjustment of small losses, however, in the hands of the general broker is sometimes used to make business, is that true?

Mr. MATHER. Well, I do not think that is true. I think a man likes to deal, a large vessel owner likes to deal with a firm that knows how to make an adjustment, but I do not think the fact that they make that adjustment has any effect upon the mind of the underwriter. If that adjustment is not right it will be turned down that quick, if you do not make it right. If you do make it right you have got always to contend with your principals. They invariably want to put something in. We have got to say, "That can not go in." There may be the best intentions in the world. "This has got to be charged to the owners, so much of this bill." You have got to do all those things, and that is another expert proposition. But I do say that the man who has the facilities for adjusting can particularly control hulls, because a man who has the hulls to place wants to feel that the man he is placing them with can adjust his losses or prepare the adjustment. We do not state what the loss shall be. We give notice to call in the surveyors, and the survey is made generally according to fixed rules. If you follow that out you have a very simple proposition. If you do not follow it out you have a troublesome time.

Mr. EDMONDS. We had the idea that it would be a very nice thing if we could do something to arrange an American bureau of registry. We noticed that the Scandinavian countries have got their own bureau of registry, Germany has her own bureau of registry, France has her own bureau of registry, and we thought it would be a very nice thing if we had our bureau of registry. As long as we are the second largest maritime nation in the world to-day, it seemed to us that it would be justified.

Mr. MATHER. We have at the present time in this country a splendid bureau.

Mr. EDMONDS. That is what I mean, an American bureau of registry.

Mr. MATHER. I have taken an active interest in that and it has been a very old established thing. At one time there were comparatively few interested in it. The Atlantic Mutual kept it alive, and then when the men came forward and wanted to control it they turned it all over to them and said, "Here it is now and will be one of you." But Mr. Taylor has been very active, and they have got a very large proposition in the work that is being built for the Government, for the Shipping Board. They have got a very large proportion of all the new work that is being built for the Government, for the Shipping Board.

Mr. EDMONDS. They have secured a fair proportion of it?

Mr. MATHER. They have secured a fair proportion of it, but they are well equipped with surveyors, and I think they have made wonderful progress during the last year or two.

Mr. EDMONDS. There has been a fair amount of antagonism, too, against it among men who I almost feel ought to be in favor of it.

Mr. MATHER. Yes.

Mr. EDMONDS. I have often wondered why that was. I see you were on the executive committee and you are chairman of the finance and auditing committee. We could not have a better man on that.

Mr. MATHER. Well, it is a very useful proposition, and I am heartily in favor of it, and I know at the present time the work they are doing is of the very best character.

Mr. EDMONDS. And their facilities, I believe, are increasing daily?

Mr. MATHER. We can not deal without a big American registry; you may know that.

Mr. EDMONDS. It seemed to be our opinion, in hearing the story, that we could not do without a big American registry. Why should the bureau of registry of France or Germany or any other country be recognized in preference to the American registry, when we are the second largest maritime nation in the world? And yet there are certain insurance men in this country who are antagonistic to the establishment of this bureau.

Mr. MATHER. I know that is true, but I have not been in harmony with that element.

Mr. EDMONDS. I am very glad to hear that.

Mr. MATHER. I am thoroughly American and in sympathy with everything that goes for Americanism.

Mr. EDMONDS. We are very anxious, too, about our bureau, you see. I guess that is the way to put it.

Mr. MATHER. That is right. I am only saying, in reference to marine insurance, that it is an international proposition, and there is this thought I would like to add, that vessel property at the present time has greatly increased in value by the cost of construction, the cost of repairs, and all that sort of thing, easily double what they were, and added to that, all commodities seem to be higher in value. Added to that the vessels are larger. Now, if you consider those things, the increased value of a vessel of 10,000 or 20,000 tons crossing the Atlantic, she has got a tremendous value, and that can only be insured by the combination of all the companies, both European and American—and by European I mean, of course, largely English.

Mr. EDMONDS. If the English were to send over here an equal amount of insurance to what we send over there it would mean a spread in the risk that would be very beneficial.

Mr. MATHER. That is something I would like to see brought about, a spread of the business.

Mr. EDMONDS. They do not seem to be willing to do that; they do not seem to be sending over here as much insurance as we send over there.

Mr. MATHER. No; nothing like. I know there are certain American companies who have contracts abroad, and it is a very great hardship. They have to pay taxes on this foreign reinsurance, and

they are not credited with it in the accounts in New York, and if it is hulls it makes a pretty serious tax upon them, because the losses on it in process of collection would also be disallowed, I believe. So there are all those things to make it a little difficult.

Mr. EDMONDS. That is from the broker's viewpoint?

Mr. MATHER. Yes. Well, it is from the viewpoint of all the companies doing that business. It materially affects the amount of hull placed in the United States.

Mr. EDMONDS. I like your end of the business. If I were to go into the business I would go into your end. I like the broker's end.

Mr. MATHER. It is an end of the business where you are never done, and you are every moment alert. You do not know what question is going to come before you to-morrow.

Mr. EDMONDS. That is true, but don't you see you can reach around and you go to these other fellows and tell them, "I will put this over in England. If you do not take it, I will put it over there," and you bat it back and forth, and you have that means of making good.

Mr. MATHER. That is true; you can do that in the interest of the client.

Mr. CHINDBLOM. You say you are never done. Do you mean nobody can do you?

Mr. MATHER. No; I will not say that, because I have been done. It is a question simply of doing your best always for your client, and to do it with good companies where we know you are going to get your losses if you have them, and I think that is about the story.

Mr. EDMONDS. I used to do business with Mr. Mather myself.

Mr. MATHER. Well, I am glad to know that.

Mr. EDMONDS. You never did me, and I never did you.

Mr. MATHER. No.

Mr. EDMONDS. I think we were at a stand-off at the end of the time.

Mr. MATHER. Well, we try to treat everybody fairly. That has been the policy of the house.

Mr. EDMONDS. Well, it is a very satisfactory house to deal with, and we never had any trouble. Although mine was a little local business and did not amount to much, at the same time it was grist that went to the mill, and we never found any fault with your rate, because I think the rates were always established in our line of business.

Mr. MATHER. It is unfortunate that in marine business you have to establish a rate almost for everything you do.

Mr. CHINDBLOM. Do you every confer with other people in your line of business about the matter of rates?

Mr. MATHER. Rates?

Mr. CHINDBLOM. Yes.

Mr. MATHER. All the time.

Mr. CHINDBLOM. How are those conferences held?

Mr. MATHER. They are held by simply going in and saying, "Here is something I want to insure. What will you do it at?"

Mr. CHINDBLOM. That is the only way, and you do not get together and hold meetings for the purpose of seeing what rates can be established?

Mr. MATHER. No.

Mr. CHINDBLOM. You do not think that could be done in this business?

Mr. MATHER. It is done occasionally on certain lines of business, but it is not a feasible thing to do on a general business. You do it in 1 out of 100 cases, perhaps. It is the cargo you are insuring—that is, the vessel it goes by. It is the condition of averages that you want, but if the assured is a good party, that goes a great ways. There are so many different conditions. We can not sit down and say, "This is so and so, and this is so and so." You can not do it that way. We have got to take the judgment of the man who has written it.

Mr. EDMONDS. When these hearings are published I would be very glad indeed if you will just read over the statement made by the committee in the first part. We made a statement of the situation in regard to marine insurance, as we found it, by the examiners.

Mr. MATHER. Yes, sir.

Mr. EDMONDS. But, unfortunately, there is no copy of it here or I would give you one; but I would like to show you that we found that about two-thirds of our business was written in foreign countries, one-third here, and that is the thing we are trying to see whether we can not improve.

Mr. MATHER. Yes.

Mr. EDMONDS. We are not trying to regulate you, nor are we trying to make any law. We realize you have got to have a liquid business.

Mr. MATHER. They have now a bureau of underwriters, and many operate with agents.

Mr. EDMONDS. We want to see why they do not do that, too.

Mr. CHINDBLOM. How could they do it? You say they are in a bureau?

Mr. MATHER. Well, they can open up a little more liberally, some of them, and can take larger lines. While the underwriting capacity has been increased, it has been increased more nominally as a matter of fact. They will take $5,000 or $10,000 up on a half or ton cargo, or 25 or 30.

Mr. EDMONDS. What insurance can you get out of the American companies now, if you went to all of them and they took the line? What can they take on a cargo?

Mr. MATHER. I guess, if you had a good risk, you could probably take the whole proposition, because some of them would take up a million dollars of $2,000,000.

Mr. EDMONDS. One company?

Mr. MATHER. Yes.

Mr. EDMONDS. Then we are now in pretty good shape?

Mr. MATHER. I think you are. If you came into my office and offered me a $2,000,000 cargo I would take it.

Mr. CHINDBLOM. And write it all in America?

Mr. MATHER. Right in my office.

Mr. CHINDBLOM. With no reinsurance?

Mr. MATHER. There would be reinsurance.

Mr. CHINDBLOM. A considerable part of it might afterwards have to be reinsured in London, might it not?

Mr. MATHER. It might.

Mr. CHINDBLOM. Then it is not written in America, not held here.

Mr. MATHER. It might not all be held, but it could be.

Mr. EDMONDS. Of course, when we speak of these two-thirds, that means reinsurance also?

Mr. MATHER. Where did you get the statistics there, Mr. Chairman?

Mr. EDMONDS. We sent out a questionnaire.

Mr. MATHER. And they came to you from the marine companies?

Mr. EDMONDS. We will probably be able to compile and publish, without using any of the confidential matter sent to us, a statement that will probably cover the marine insurance of this country very thoroughly. We sent out a questionnaire to all the companies, and they all answered it.

Mr. MATHER. I understand, but would the companies themselves know how much went abroad? Each would know what they sent abroad, but would they know how much has gone abroad?

Mr. EDMONDS. Then they would know their reinsurance. Of course, we could get no statitstics on their exported insurance.

Mr. THACHER. When the chairman referred to exported insurance he refers to insurance sent from this country to an alien nonadmitted company.

Mr. EDMONDS. Not to an alien nonadmitted company. When I speak of exported insurance, the term, as we use it, means insurance sent over to the other side, that does not touch us at all, that pays no taxes, and does not go into any other company at all.

Mr. THACHER. That is what I said, insurance sent out and written in companies not admitted to do business in the United States. That is exported insurance.

Mr. EDMONDS. There is a good deal of it sent out to companies that are admitted to do business in the United States.

Mr. THACHER. I thought you had in mind insurance sent to alien companies not authorized to do business in the United States.

Mr. EDMONDS. Just assume, for instance, that Mr. Mather has a client whom he wants to make a good rate, a cheap rate, and he has got a cheap London rate, and he does not want it to go through here, he can place that insurance in London, without touching his American office at all, and when placing it in London he would probably place it in a dozen companies that are admitted here, and divided up among a lot that are not admitted, but it is insurance that does not touch the records of this country at all, therefore we are unable to get a record of it. We can get a record of anything that touches the insurance companies of this country.

Mr. MATHER. But we do in the way of hulls, Mr. Edmonds, which is practically what we send abroad, although a certain amount of war insurance we sent abroad, and the rates were lower there than they are here, and it so happens that where the rate in London to-day is lower than it is here we will send that cargo where the lowest rate is, as a rule.

Mr. EDMONDS. You are the representative of the man who does the insurance.

Mr. MATHER. We try always to do it in America if possible, because we represent these American companies, but we want to write all we can, but if we can not do it at the rates that are current elsewhere then we let it go to the other side.

Mr. CHINDBLOM. If any commission comes back to you, that goes into your hands, of course?

Mr. MATHER. Yes.

Mr. EDMONDS. That covers the excess-profit tax?

Mr. MATHERS. Oh, everything we do on the other side, the policy always comes to us in America. I have never placed a risk on the other side that the policy does not come here with a 3 per cent stamp.

Mr. EDMONDS. In that case you have got to pay the tax here, too?

Mr. MATHER. Always. That is on everything we do. I do not know of a single risk that we have placed on the other side where the policy has not come to America bearing a 3 per cent stamp. If a man over there buys anything, it goes free to the receiver. If he places the insurance, then there is no transaction in this country at all; but wherever the transaction is in this country the policy comes here and we deliever it to our assured and put the 3-cent stamp on it.

Mr. EDMONDS. But you do through your London office business with nonadmitted companies here, too?

Mr. MATHER. Yes; Lloyd's and all the rest of them, as I say, the London man who writes a policy over there writes it on a London account, without reference to what is being done in the United States whatever, and you can not shut that man off from writing that account; it can not be done. He will always write it over there. You can not make a law that an English company represented in America can not write a marine risk over their own counter in London, because they will write everywhere all over the world. That can not be done, gentlemen.

Mr. EDMONDS. What can we do to get all that moved over here and make this the center for insurance?

Mr. MATHER. By just simply educating our people to a point where they will become as keen and as expert as the London underwriter and learn to conduct their business with the same carefulness that they do over there. Then it will come. Nobody goes over there from preference; no one goes there from preference. It is necessity. You see, we are young in this game. We have only just recently got into this heavy export business. We have only recently been the second nation in vessel owning, and I think now we have some 8,000,000 tons of steel vessels.

Mr. EDMONDS. We have 8,000,000 tons now, and I think they have nearly 18,000,000.

Mr. MATHER. London has 16,000,000. That is a wonderful showing.

Mr. EDMONDS. We have got 13,000,000 tons now, and London 18,000,000. I think that is the way we stand now.

Mr. MATHER. Yes. That will increase the American companies and increase business all around.

Mr. EDMONDS. We are hunting for some kind of fertilizer to put around the roots to make them grow more quickly. If you will only tell us what kind of fertilizer is necessary we will be able to go ahead.

Mr. MATHER. Gentlemen, I think you are in a good cause, but I do not want to see anything done with that desire which will upset the result.

Mr. EDMONDS. We do not want to. We think there is a fertilizer that ought to go to the roots of this thing and make it grow rapidly,

and we are trying to find it. There have been some very good suggestions made here, too.

Mr. MATHER. I do not know of any fertilizer that you can use that will reach the shipper or the vessel owner. He is the man, and there are hundreds of them. They do not ask us where we are going to do it or anything about it. They say, "Do this."

Mr. CHINDBLOM. Take in the matter of hulls. The vessel owner, the purchaser of the insurance, may have an advantage right now, but suppose eventually that is going to work out very much to his disadvantage by certain American business, writing hull insurance, then is it not the province of this committee to look to the future and not merely to look after the present advantage, but to prepare for the day to come?

Mr. MATHER. If hull rates are too low to-day the American company does not lose anything by not taking them. It does not cost them anything to say, "No, I do not want that risk." They are not depleting their capital or surplus or anything else if they only, "No, I do not want it." The minute that rate goes up and they can take it they will always have it offered to them again.

Mr. CHINDBLOM. In the meantime the American companies are not growing on the hull business.

Mr. MATHER. No. So long as the hull business can be done lower in London than in New York it will go to London.

Mr. EDMONDS. Mr. Mather, it was testified here, and not contradicted at all, that the English companies had raised their rates on everybody's hulls but ours about two or three times in the last year or so, and that they had left the hull rate low purposely in this country to destroy, if possible, our insurance companies.

Mr. MATHER. I do not think that is so. I have never seen the slightest indication of that. If you take the builders' risks, our rates for builders' risks are lower than London.

Mr. EDMONDS. You mean the rates of American companies for builders' risks?

Mr. MATHER. The American companies' rates for builders' risks to-day are lower than London, and London is writing American builders' risks for less money than they write their own.

Mr. EDMONDS. Naturally, it must be that the London hull rates are lower than here.

Mr. MATHER. One minute. That is done because we consider that American prices are made under more favorable circumstances than they are on the English coast.

Mr. EDMONDS. That is in builders' risks?

Mr. MATHER. Yes. When you talk about hulls there is no way you can compare the American hull, which is largely an American coastwise proposition up to the present time.

Mr. EDMONDS. Yes; because of the insurance and the——

Mr. MATHER. There is no way you can compare that risk with the world privileges such as England has, and if they ever advance their hulls, with the exception of the United States hulls, then I would say that they had made money on the United States hulls, in my answer to it. I have never thought that they have ever had in their minds the proposition of destroying the American market. I do not believe that at all. That is a fancy that runs

through the minds of some, but a man who writes a hull in London writes it because he believes it is good business to do it at that rate and he can make money out of it.

Mr. EDMONDS. Is it not true that they make a higher rate on hulls for other countries than they do for American hulls?

Mr. MATHER. I think it is true that they would make a higher rate for Italian and Spanish, because we all do.

Mr. EDMONDS. How about their own hulls?

Mr. MATHER. Their own hulls would all be treated according to their merits. You take the Cunard Line and you get a rate lower than you ever conceived of for an American hull. They write all those lines very low. I have had them send lines over here that no one in America would touch. If they did, they would be a very small proposition.

Mr. EDMONDS. It was suggested this morning that if we had more reinsurance companies here that we would be in better shape.

Mr. MATHER. There is no doubt about that. That is a good proposition. If you had more reinsurance companies they would reinsure the companies here, and you could hold it here.

Mr. EDMONDS. Reinsurance companies doing only a reinsurance business?

Mr. MATHER. Yes. There are one or two. The Rossia is one.

Mr. EDMONDS. The Rossia is a new growth that has just come in?

Mr. MATHER. Yes; it is a Russian company located in Hartford, a reinsurance company, and very good. I believe their assets are all in this country and not affected by the proposition.

Mr. EDMONDS. Why is not capital attracted to go into these reinsurance companies, because they do not know anything about it?

Mr. MATHER. I think that is largely it, and they could go and buy the stock of well-established companies and it would be impossible to get anyone to go in. There is nothing more difficult than to get anybody to take stock in a marine insurance company. Old gentlemen have told me that at one time we had in Philadelphia 22 marine insurance companies, in the old days of Stephen Girard and some of those old fellows. He wrote Lloyds policies himself. He was one of several. He would insure elsewhere as well. He wrote all over the world to insure his cargoes.

Mr. EDMONDS. Yes. I suppose he would have to.

Mr. MATHER. Yes; but some time after his time we had 22 marine insurance companies in Philadelphia, but before the cable came along, and you see that changed the attitude.

Mr. EDMONDS. I think we ought to put a tax on the cabling over of any insurance policies. How would that do? Suppose every time you cabled over $100,000 we put a 4 per cent tax on $100,000 so as to make sure you would get it of enough size to make sure we would get a tax on it?

Mr. MATHER. Gentlemen, do not forget that all these taxes you put on—you want to build up an American merchant marine, which is all right and it is a proper thing to do, but do not forget that it is the marine merchant you are legislating against when you do it. He is the man that pays it.

Mr. EDMONDS. He always pays the bill at the end?

Mr. MATHER. He is the man that pays it. He will tell you when he comes down here, "I want that policy so it will be in competition

with the world. I do not want any legislation that is going to put a hazard on my shoulders."

Mr. EDMONDS. Is there anything in our Pennsylvania law to prevent the formation of a big reinsurance company?

Mr. MATHER. Nothing.

Mr. EDMONDS. Or the New York law?

Mr. MATHER. Nothing. They can form one to-morrow.

Mr. EDMONDS. It seems rather peculiar, considering the way business is expanding, that that has not been thought of.

Mr. MATHER. I think that the men who put up the money would prefer to have it so that they could take the first risk themselves rather than to reinsure.

Mr. EDMONDS. Well, reinsurance companies really do not have anything to do with the necessary judgment that goes into making the rates, because they merely take a rate that has already been supervised by another company?

Mr. MATHER. Yes.

Mr. EDMONDS. And if they are satisfied that the general judgment of that company is good they do not raise any question as to the reinsurance which they take?

Mr. MATHER. No; but they would have to be careful to get a contract that would give them an interest in everything that the other company wrote, a percentage of the other company's business. If they did not have that they would get the tough risks put over on them.

Mr. THACHER. It is not as sure a gain as you thought?

Mr. MATHER. Here is the thing we have to deal with always, here is the trouble in this business: Here is John Smith, who pays $100,000 a year in marine premiums, and he has got a very few old vessels he has got to use. He is hard pressed in these war times, when vessels are scarce, and he had an old tub, and he must get it insured somehow. The company having his business must see him through. If they had a reinsurance company they could unload that on they would be very pleased. Those are all problems coming before these underwriters.

Mr. EDMONDS. I think some of these Shipping Board vessels will answer that description very well.

Mr. MATHER. I predict that inside of 12 months your vessels will be worth one-third less than they are to-day, and probably one-half.

Mr. EDMONDS. I made a statement on that the other day. I do not know whether it is true or not, but I said that when one of these Shipping Board vessels got to be three years old it was not going to be worth much more than $125 a ton.

Mr. MATHER. It will not be worth much more than that. I tell you, gentlemen, we are getting to a point where shortly our vessels will get down to normal conditions and where the vessel owner will have all he can do to struggle along. That is true of the coastwise business in the United States to-day, and I know that when the Southern Pacific and the Ocean and some of these lines are turned back by the director general, when that day comes they will have a hard struggle to make both ends meet.

(Whereupon the committee adjourned, to meet Saturday, September 27, 1919, at 10.30 o'clock a. m.)

WASHINGTON, D. C.,
Saturday, September 27, 1919.

The subcommittee met at 10 o'clock a. m., Hon. George W. Edmonds presiding.

Mr. EDMONDS. In the light, Mr. Chubb, of the instructions of the general committee to take up the Shipping Board insurance policies, on which we had one hearing at which you were not present, we might just combine the two so as not to bring you down here any more than we have to, and we may take up some questions regarding the Shipping Board and your relations with them.

TESTIMONY OF MR. HENDON CHUBB, OF NEW YORK, MEMBER OF THE FIRM OF CHUBB & SON, REPRESENTATIVES OF VARIOUS INSURANCE COMPANIES.

Mr. Herndon Chubb was duly sworn by Mr. Edmonds.

Mr. EDMONDS. Will you give the stenographer your name and the name of the different concerns you represent, Mr. Chubb?

Mr. CHUBB. My name is Hendon Chubb, 5 South William Street, New York. I am vice president of the Federal Insurance Co., of New Jersey. I am one of the firm of Chubb & Son, managers or attorneys for the Federal Insurance Co., of New Jersey; the Sea Insurance Co., of Liverpool; the Marine Insurance Co., of London; the London Assurance Corporation; the Alliance Insurance Co., of London; the Hartford Fire Insurance Co., of Hartford, Conn.; the Merchants' Assurance Corporation, of New York and Hartford. We are managers of their marine department and also of the Merchants. Our title is "managers of the marine department."

Mr. EDMONDS. Did you want to make a statement, Mr. Chubb?

Mr. CHUBB. I have no particular statement to make at the present time, sir. I have several things I want to comment on, and I thought especially as you were going to take up the question, you said, of the governmental matters there——

Mr. EDMONDS. We will run them together, I think.

Mr. CHUBB. If you will give me an indication of what you want a statement on from me, I will be very glad to do it.

Mr. EDMONDS. Let us see just exactly the relationship between these different companies. One thing we had in mind: Chubb & Son are deeply interested in the Federal Co., are they not?

Mr. CHUBB. Yes.

Mr. EDMONDS. The Federal Co. was originated in 1901?

Mr. CHUBB. It was the outgrowth of the Lloyd's Association formed in 1884.

Mr. EDMONDS. Was your concern made the agent or the manager of these foreign companies before 1884 or in 1901?

Mr. CHUBB. No; we are managers for the Sea Insurance Co. At the same time we formed the New York Marine Underwriters the firm of Chubb & Son was formed, and they took the management of the Sea Insurance Co. and also formed the Marine Underwriters, which later became the Federal Insurance Co. That New York Marine Underwriters, I may say, were agents of Lloyd's. They afterwards became agents of Lloyd's.

Mr. EDMONDS. Then you were representing these foreign companies at the time the Federal was formed?

Mr. CHUBB. The firm of Chubb & Son—it was before my time, I may say, but I think the two things were coincident—the firm of Chubb & Son was formed at the time the New York Marine Underwriters was formed.

Mr. EDMONDS. Did your family personally represent these companies?

Mr. CHUBB. My brother represented the Sea Insurance Co. just about that time.

Mr. EDMONDS. Your brother is a director of the Sea Insurance Co. now?

Mr. CHUBB. Yes; he is a director of the Sea Insurance Co. now.

Mr. EDMONDS. Your brother is an American?

Mr. CHUBB. Yes.

Mr. EDMONDS. Was not your brother, during the war, on the English War Risk Board?

Mr. CHUBB. No; nothing to do with it.

Mr. EDMONDS. Was not he connected with some of the English boards of trade?

Mr. CHUBB. No; not in any way. He took up, at the request of the American underwriters, or he took it up with the—I could not say whether it was the board of trade there, but he took up on behalf of the American underwriters the question of the seized cotton cargoes at the time cotton was declared contraband. That was on behalf of the American underwriters.

Mr. EDMONDS. The matter was suggested that possibly he was in England so much that he was working in the English companies' interest there.

Mr. CHUBB. The reason my brother was in England at that time was for a good many years he has gone over every year to a moor he has hired in Scotland, which he has had perhaps for five or six years, and when he went there a good many Americans went with him to shoot for five or six months. At the commencement of the war, he went over there in July just before the war broke out, and when the war broke out he tried to come back to America, but his wife's health was such that the doctors would not let her come, and he would not leave his wife over there. He came back in 1915, and went back in about three months, and then was taken very ill, and he remained there practically incapacitated until the end of the war, and after he recovered he and his wife came back. I think there has been some misunderstanding about that point, and I would like to put it straight on the record.

Mr. EDMONDS. I am very glad to bring it out for your sake, because that has been suggested; and we are glad it is not so.

Mr. CHUBB. That is what I am anxious to do.

Mr. EDMONDS. Of course, the management of the Federal Co. comes pretty well under your hands now?

Mr. CHUBB. Yes, sir.

Mr. EDMONDS. In looking over the reports, a very large percentage of the insurance in the Hartford and Federal and some of these companies seems to be reinsured in foreign admitted companies and a small percentage in foreign nonadmitted companies. Is there any particular reason for that?

Mr. CHUBB. Yes; there is a very particular reason for that. It is dealt with in two separate ways: First, the question of the foreign

admitted companies. We represent, as you know, these companies I have referred to. They had business at the time we took them over, and their business developed; it has not developed to the same extent the Federal has, but it has developed—and we exchange business between the companies; that is to say, while we give 20 per cent of the Federal's business to the Marine, the Marine gives 25 per cent of their business to the Federal—American business.

Mr. EDMONDS. Is that insurance imported over here; brought and placed over here?

Mr. CHUBB. Oh, no; it is for American customers.

Mr. EDMONDS. American customers?

Mr. CHUBB. Yes.

Mr. EDMONDS. I see what you mean. These are your agency offices here.

Mr. CHUBB. Yes; our agency offices here.

Mr. EDMONDS. Your manager's office here?

Mr. CHUBB. Yes.

Mr. EDMONDS. Still you have in your own hands a good deal of the directing of that insurance, have you not?

Mr. CHUBB. Well, we direct it——

Mr. EDMONDS. You can direct it as manager; your manager's office can direct that to British companies or American companies?

Mr. CHUBB. Only to a certain extent, Mr. Edmonds. It depends a great deal on what the people who bring the business to us want to do or where it has been before. For instance, as a matter of fact, we do direct, and, as a matter of fact, we direct most of the new business, as far as possible, to the Federal Insurance Co. That is natural, and we make no secret about it. If you came in and asked me for a policy and did not specify what company to put it in, we would put it in the Federal Insurance Co.

Mr. EDMONDS. Does not that raise complications to a certain extent with your foreign associates?

Mr. CHUBB. It would if they did not recognize it and know it.

Mr. EDMONDS. Does your concern have any controlling interest in these foreign companies?

Mr. CHUBB. It has practically no interest whatever.

Mr. EDMONDS. Mr. Percy Chubb is a director?

Mr. CHUBB. He was asked to be a director because they wanted to have his advice and assistance in handling certain situations. His interest in the Sea Insurance Co. is very, very small. I have no definite knowledge about it, but I doubt if it exceeds $25,000.

Mr. EDMONDS. Is any other member of your firm a director in foreign companies?

Mr. CHUBB. No, sir; nor stockholder, as far as I know.

Mr. CHINDBLOM. Who constitutes your firm?

Mr. CHUBB. Percy Chubb, my brother, who is a great deal older than I am—17 years older; myself; George B. Ogden; W. A. Hamilton; T. H. Allen; and my brother, Sidney Chubb.

Mr. EDMONDS. Is Mr. Sloan a member of your firm?

Mr. CHUBB. Mr. Samuel Sloan and Mr. Francis H. Sloan are both directors of the Federal Insurance Co.

Mr. EDMONDS. Not of your firm?

Mr. CHUBB. No; not in any way.

Mr. EDMONDS. He is a director in the Queen, also?

Mr. CHUBB. I do not know about that.

Mr. EDMONDS. Which is virtually owned by the Royal Insurance Co., of Liverpool?

Mr. CHUBB. Yes.

Mr. EDMONDS. Mr. Redmon Crist is a director also?

Mr. CHUBB. Yes.

Mr. EMONDS. He is a United States trustee for the Atlas Insurance Co. (Ltd.).

Mr. CHUBB. I do not know.

Mr. EDMONDS. You were chairman of the Hull Insurance Association?

Mr. CHUBB. No, sir.

Mr. EDMONDS. You were not chairman?

Mr. CHUBB. No, sir.

Mr. EDMONDS. You were not in it?

Mr. CHUBB. Yes, sir.

Mr. EDMONDS. Mr. Fowler was chairman?

Mr. CHUBB. He was chairman part of the time. I think he is not now; in fact, I know he is not now.

Mr. EDMONDS. And there was virtually a controlling interest of this Underwriters' Association by three or four of the largest writers of international insurance?

Mr. CHUBB. I should not think so for a minute; absolutely not.

Mr. EDMONDS. Did you resign from that association?

Mr. CHUBB. No.

Mr. EDMONDS. You are still a member?

Mr. CHUBB. Still a member.

Mr. EDMONDS. Did Mr. Appleton and Mr. Fowler resign, or are they still members?

Mr. CHUBB. I think Mr. Fowler resigned from marine insurance, so I think he has resigned.

Mr. EDMONDS. Mr. Simpson is still in the hull association?

Mr. CHUBB. As far as I know he is.

Mr. CHINDBLOM. Do you know whether Mr. Rush is a member?

Mr. CHUBB. Somebody told me yesterday he was not. It was a surprise to me. I thought he was.

Mr. EDMONDS. Mr. Rush resigned, but, as I understand it, he said his resignation had not been accepted, although he said it was positively on record.

Mr. CHUBB. I did not even know that.

Mr. CHINDBLOM. Are there any resignations on file for action at such time as it may appear proper to take action?

Mr. CHUBB. Not that I know of.

Mr. CHINDBLOM. I confess I could not just understand the situation about that resignation.

Mr. CHUBB. I have never known a resignation from any of these associations to take but one of two courses: Either it is accepted or referred to some special people who want to go and talk it over and see if there is any trouble and what it is, with a view to reconciling any differences.

Mr. CHINDBLOM. I should think so. But I have the impression it is a hard job to get out of the association if you desire to do it.

Mr. CHUBB. I do not think it is hard.

Mr. EDMONDS. I will tell you the impression I got of it is this, that as long as by an understanding with London, the rates on hull insurance were fixed and virtually could not be taken care of in this country, some of these gentlemen were active in the American Hull Association; but recently, with the enlargement of the insurance facilities in this country, the hull association seems to have gotten into the hands of men who are more distinctly American underwriters; and it looks very much to me as if you folks who were doing an international business retired from any active participation and then, owing to that retirement, the hull association has become innocuous.

Mr. CHUBB. I do not think that is quite a correct diagnosis. I know my own retirement from active participation in the hull association dated from my coming down to Washington with the Shipping Board. I resigned from the hull association and made it a point not to attend those meetings. I did not think it a proper thing for me to do.

Mr. EDMONDS. I think that is very fair; but is that true of the balance of the association? From Mr. McGee's testimony, why, the hull association has virtually become a dead one.

Mr. CHUBB. Yes. There is no question about that, Mr. Edmonds.

Mr. EDMONDS. Why?

Mr. CHUBB. Because the hull association was based on giving what we called advisory rates. And why we call them advisory rates, you were under no obligation to follow them. At the same time, if they were not followed, the hull association could not go on. Now, people did not follow them.

Mr. EDMONDS. Before you came down to Washington, was not the hull association quite a factor in hull rates?

Mr. CHUBB. Yes, it was.

Mr. EDMONDS. And were not the hull rates greater in this country when you international insurance men were in the association?

Mr. CHUBB. You know, I do not know—you keep calling me an international insurance man. I do not know whether it is a compliment or whether there is some suspicion of a slur in it.

Mr. EDMONDS. No there is not any suspicion of a slur in it at all.

Mr. CHUBB. But I have a broader interest in the American marine insurance than any man appearing before you—more personal interest—and I would like to have my record clear on it.

Mr. EDMONDS. I am not making any slur, and I do not want anyone to consider it a slur.

Mr. CHUBB. I thank you.

Mr. EDMONDS. I am simply calling you—your position in the business is one of an international status, in my opinion.

Mr. CHUBB. I think that is true of almost every marine underwriter.

Mr. EDMONDS. That is true of almost every marine underwriter to some extent, but some men do less business with foreign companies and other men do more.

Mr. CHUBB. Unquestionably.

Mr. EDMONDS. It is not a slur for a man to do business where he can do business and where he can turn an honest dollar.

Mr. CHUBB. I am very much obliged to you for your explanation. You can call me an international insurance man if you like under that explanation.

Mr. EDMONDS. I am trying to differentiate between the man the large bulk of whose business, or an equal division of whose business, is done in two countries. I am trying to differentiate between them and the man who places a very small amount of business outside of this country. I would consider you an internationalist.

Mr. CHUBB. I would like to submit to you that the interest of any American underwriter, whether he underwrites virtually for American and foreign companies, is practically identical with that of a man writing purely for American companies. I would further submit to you that in my opinion—and I think it will be borne out if you ask these questions confidentially of any of the men who have been a long while in the business; I do not know about new men—I have done as much as any one man to make the American market independent of any other market?

Mr. EDMONDS. I have understood so.

Mr. CHINDBLOM. I would like you to go a little further. In the first part of your last statement you said, "I would like to submit to you that the interest of any American underwriter, whether he underwrites virtually for American and foreign companies, is practically identical with that of a man writing purely for American companies." Would you emphasize that statement and show why it is so? It does not seem so at first blush, does it?

Mr. CHUBB. It does seem so to me, I must say. The first interest of the underwriter in either case is in the American market, in the business he has done here under the laws of the United States and in making money and conducting the business satisfactorily for the company he represents. Now, I do not know wherein my interest, for instance, would be any different from Mr. Rush's or from Mr. Parsons's or from Mr. Hedge's, all of whom do not represent a dollar of foreign interest. We are all interested in seeing the business done in this country, and not done outside of this country—all done in this country. I mean done in this market. And we are interested in seeing proper practices prevail.

Mr. CHINDBLOM. But if you represent foreign companies, necessarily it is your business to look after their interests; and, if you neglect their interests, they may not find fault, but that would hardly be the proper course for a business man to follow, would it?

Mr. CHUBB. I do not know. It would depend on what their interests are. If you mean their interest in the American branch, I say "Yes"; but if you say their interest on the other side not to interfere with their business done over there, I say, "Not by a long sight." For instance, Mr. Evans testified yesterday about the way to settle this competition was to go over there and take some of their business. I do not know where Mr. Evans got the idea, but before I ever heard of it from Mr. Evans, I suggested to Mr. McComb that is the only way we could accomplish anything. And I would no more hesitate to do that, because it would interfere with the companies we represent on the other side, than I would hesitate to do it if I did not represent those companies on the other side.

Mr. CHINDBLOM. Do not understand me for a moment to suggest you have not a right to represent all the foreign companies you like. I think as an American you have the right to represent all the foreign companies you like.

Mr. CHUBB. I am sure of it.

Mr. CHINDBLOM. There is not anything in our laws that prevents it, and I do not think there is anything American that forbids it. But what I am getting at is, as a matter of fact, the representation of an interest in foreign business does it not rather impose on a man an obligation to look after that foreign business?

Mr. CHUBB. It does as far as you have a company agency over here; but as far as any competition with the head office, not a bit. I do not read it so. And my position on that question can be understood by any head office of any company we represent, and if they do not like it there are two alternatives——

Mr. CHINDBLOM. That is all right; I am content.

Mr. CHUBB. I want to explain that fully.

Mr. EDMONDS. I do not want Mr. Chubb to feel for one minute there is anything personal.

Mr. CHUBB. I do not, Mr. Edmonds.

Mr. EDMONDS. Or any reflection on your personal Americanism, but your relations naturally are international.

Mr. CHUBB. I am trying to make clear, because I think the committee has a little wrong bias on it, that the interest of the American, such as myself, representing a foreign company, as regards the market in this country, is exactly the same, except I should think, if I stood to bring about a monopoly of the American field to only companies that were incorporated over here, although my personal interest would be to do that, more than any other thing, I would feel I was personally negligent to my trust.

Mr. EDMONDS. That is just exactly what I meant.

Mr. CHUBB. And I am perfectly willing to admit that when it comes to a question of monopolizing. But when it comes to a question of export business or anything of that kind, I am just as independent as if I did not represent any company except the Federal.

Mr. EDMONDS. You heard my explanation of what I considered exported insurance—insurance on which no record came over here and done in London?

Mr. CHUBB. Yes.

Mr. EDMONDS. Who does that principally, the broker?

Mr. CHUBB. Almost entirely.

Mr. EDMONDS. It is done, of course, with the obvious intention of evading tax here and reducing the cost of insurance by that evasion, is it not?

Mr. CHUBB. I think that is a factor in it. I think the thing is to obtain the benefit of the cheaper market.

Mr. EDMONDS. Have you any way of keeping any track or record on that exported insurance?

Mr. CHUBB. No, sir; not at all, except I did figure (that is just one man's opinion) the 20 per cent of the whole business struck me as excessive at the present time.

Mr. EDMONDS. We endeavored for pretty near a week to try to figure it out in some way, but it seemed to be almost impossible

to do it. It was the opinion of certain insurance men to whom we talked that was about the amount. It might be high or low, because it is only an estimate.

Mr. CHUBB. I think Mr. Mather could have given you a very good opinion on it; much better than I can.

Mr. EDMONDS. I think probably he could.

Going back to your connection with the Shipping Board, you were chairman of a committee and Mr. Davey and Mr. Hedge were members of the committee?

Mr. CHUBB. Yes.

Mr. EDMONDS. And that was the original board. At that time the Shipping Board was not doing their own insurance?

Mr. CHUBB. I do not think they had really got to the point where the insurance question had come up prior to that, Mr. Edmonds.

Mr. EDMONDS. They must have had something to insure and I think they insured it as far as they did.

Mr. CHUBB. I do not thing they did. As far as I know they did not place any insurance prior to that.

Mr. EDMONDS. And it was on your recommendation they started this board of their own?

Mr. CHUBB. Yes; it was.

Mr. EDMONDS. That worked out successfully, very successfully from the figures they have given to us.

Mr. CHUBB. Yes; I think it was well run.

Mr. EDMONDS. At the time that commission was formed Mr. Davey resigned, did he not?

Mr. CHUBB. Yes; he resigned.

Mr. EDMONDS. And he formed what was known as the American Protection & Indemnity Co.?

Mr. CHUBB. No; that had been formed a long time before.

Mr. EDMONDS. It had been formed a long time before?

Mr. CHUBB. Yes.

Mr. EDMONDS. He was active, however, in forming it, was he not?

Mr. CHUBB. I do not think so. His firm were, but Mr. Davey himself, my impression is, had very little to do with it. It naturally would come very little in his line.

Mr. Edmonds. What was the purpose of that company?

Mr. CHUBB. It was to do what is known as club insurance. There are a number of English clubs and I imagine German clubs, and I know Norwegian clubs. Those clubs are shipowners that get together to protect themselves by a mutual plan against certain risks not covered by marine insurance policies, such as claims for damaged cargo by bad handling—claims that are not recoverable in some cases under the insurance policies, owing to the work of the average clause in the policy, although that is not always the custom.

Mr. EDMONDS. Was this American Protection & Indemnity Co. composed of a number of the insurance men in the country?

Mr. CHUBB. No; I do not think so. It was composed of steamship men.

Md. EDMONDS. The owners of the steamships themselves?

Mr. CHUBB. Yes; the owner of the steamships themselves. I am not terribly familiar with that aspect, so I say this with deference

that I think you could get the information perhaps more accurately from somebody else.

Mr. EDMONDS. Johnson & Higgins were big people in the formation of this company?

Mr. CHUBB. They were managers.

Mr. EDMONDS. The Shipping Board insured their ships in that on the outside, did they not?

Mr. CHUBB. They entered their ships in that.

Mr. EDMONDS. Was that deduction made from the proceeds of the Shipping Board—the cost of this insurance?

Mr. CHUBB. I imagine it was the Emergency Fleet Corporation, Mr. Edmonds. I never could quite get the relation between the two straightened out. I imagine the Emergency Fleet Corporation did that, because I do not think the Shipping Board could insure.

Mr. EDMONDS. As near as I can find out, it has not been straightened out yet, but I hope it will be some day.

Mr. CHUBB. As I recollect it, they made a contract and entered all these boats into this association, and it was under the management of a committee of the board of directors of which, I think, no insurance man was a member. I am not sure, but that is my impression.

Mr. EDMONDS. Was it necessary for them to do that?

Mr. CHUBB. You mean——

Mr. EDMONDS. For the Shipping Board to do that?

Mr. CHUBB. The Shipping Board had to take care of that in one of two ways: They either had to organize a very extensive department to take care of this insurance, with agents, all over, or else they had to make an arrangement with some concern in this country. And it came up to me—negotiations for this were started before I joined the Shipping Board and it came up to me to approve—before they were completed, I was asked if I approved and I heartily did approve, because I thought it saved money for the Shipping Board and it possessed an institution which was the only American institution of its kind and it would be very necessary for the Shipping Board.

Mr. EDMONDS. Was it a mutual arrangement?

Mr. CHUBB. A mutual arrangement; yes, sir.

Mr. EDMONDS. It is rather remarkable in the testimony given to us by the Shipping Board, they never mentioned this American Protection & Indemnity Society; but, in going over the records, I ran into it, and so I was wondering what it had to do and where it came in, because we have been informed that the insurance of the Shipping Board was done by it and a profit had been made.

Mr. CHUBB. Yes.

Mr. EDMONDS. And that it had been successful, and I could not understand where this came in in any of the reports or anything they said to us.

Mr. CHUBB. I do not know that this is strictly insurance. I suppose it is insurance, because they could not get a policy anywhere else for that kind of thing, but it is not customary in the usual sense of the word. As a rule, the steamship people enter their vessels in one of their societies, and the premium is assessed not on the value of the vessel but so much a ton, and it is subject to assessments.

Mr. CHINDBLOM. That is for these extraordinary hazards?

Mr. CHUBB. They are mostly small, but extraordinary in the case of being outside of the usual hazards, being hazards not due to the acts of God.

Mr. CHINDBLOM. Yes; and not usually covered by insurance?

Mr. CHUBB. Very rarely.

Mr. EDMONDS. There is no way of estimating what such losses would be, and a man in the insurance business, even with the best judgment, would not be able to tell.

Mr. CHUBB. It would be very hard to do so and I do not think it has ever been thought very much worth while.

Mr. EDMONDS. In connection with your Government business, Mr. Chubb, you were asked to take care, by Mr. Hoover, of the insurance for the sugar committee and the different committees?

Mr. CHUBB. No, sir; I was not.

Mr. EDMONDS. You were not?

Mr. CHUBB. No; Mr. Rolph.

Mr. EDMONDS. I mean of Mr. Hoover's department?

Mr. CHUBB. I was going to explain a little bit. Mr. Hoover consulted me on one point, and I had one interview with Mr. Hoover in New York, and I wrote him one letter in which I explained to him the way the premiums could be assessed. But as to the placing of the business or a division among the companies, I was never consulted and had no knowledge until it was an accomplished fact. I was only one of a number of people Mr. Hoover consulted, and, incidentally, my plan was not carried out.

Mr. EDMONDS. Does that cover the sugar and all the different foodstuffs?

Mr. CHUBB. Yes, sir.

Mr. EDMONDS. Did the food-control committee insure everything in the market?

Mr. CHUBB. Oh, I do not know when they began to do it, but they did not begin to insure, I do not think, until the war was over.

Mr. EDMONDS. They did not begin to insure until the war was over?

Mr. CHUBB. No; I do not think they insured anything during the war.

Mr. EDMONDS. During the war they insured through the War Risk Bureau, I presume?

Mr. CHUBB. No; they did not insure through the War Risk Bureau. I do not know of any risk of the food control insured in the War Risk Bureau.

Mr. EDMONDS. Where did they insure?

Mr. CHUBB. I do not think they insured.

Mr. EDMONDS. During the war they were shipping sugar and other food products across the water. They must have insured.

Mr. CHUBB. I do not think there was any insurance on those, Mr. Edmonds. I do not know. I had nothing to do with the Food Administration.

Mr. EDMONDS. Their insurance has only been on the market since the war?

Mr. CHUBB. That is my impression.

Mr. EDMONDS. And, of course, since the war the War Risk Bureau has gone out of that business; during the war I presume they insured with the War Risk.

Mr. CHUBB. I think I might have known of it, and I do not think they did, although the records of the War Risk Bureau would show it very easily.

Mr. EDMONDS. You were a member of the Lloyd's committee in this country, were you not?

Mr. CHUBB. Yes.

Mr. EDMONDS. Are you still a member?

Mr. CHUBB. No.

Mr. EDMONDS. How long have you been out?

Mr. CHUBB. I resigned at the time that the Shipping Board asked me to act on the committee that was to report on classification societies. I was asked to join the American bureau at that time. In fact, one of the insurance commissioners urged me to. But I said, if I was going to have that job I thought I should not be on either side, and I resigned. I had not been active; I had not attended a meeting for two years before my resignation.

Mr. EDMONDS. That committee is still in existence?

Mr. CHUBB. It has made its report and been discharged.

Mr. EDMONDS. The Lloyd's committee?

Mr. CHUBB. I thought you spoke of the committee on classification.

Mr. EDMONDS. Oh, no; I know that.

Mr. CHUBB. Oh, yes; the Lloyd's committee is still in existence.

Mr. EDMONDS. What is that committee called, the American Committee of Lloyd's?

Mr. CHUBB. I do not remember the exact title, but that is the sense of it.

Mr. EDMONDS. You were on this before the war, were you not?

Mr. CHUBB. I was on it at the time it was formed.

Mr. EDMONDS. That has been some years ago?

Mr. CHUBB. Not prior to 1913, and I think about 1915, Mr. Edmonds; but I really do not remember.

Mr. EDMONDS. The plans of American vessels that were registered in Lloyd's Bureau were kept in this country?

Mr. CHUBB. I could not answer that definitely, Mr. Edmonds. I do not really know.

Mr. EDMONDS. Your committee had charge of the inspectors, the Lloyds inspectors?

Mr. CHUBB. If we did, we never exercised it at any meeting I was present at, but I was present at very few meetings, Mr. Edmonds. I do not think I attended—I think I attended two lunches and one meeting, as I remember it, during the whole time of my connection with it.

Mr. CHINDBLOM. What were the functions of the committee?

Mr. CHUBB. Theoretically they were to have entire supervision and charge of the American vessels of the Lloyd's registry. As a matter of fact, Lloyd's registry was very well organized, and, like any board of directors of a well-organized thing, I do not think they interfered very much, though they got pretty full reports; that is, if they listened to them, which I think a good many members did.

Mr. CHINDBLOM. Did you have control over the American officers and American office force of the Lloyd's in this country?

Mr. CHUBB. I could not answer that. I really do not know.

Mr. CHINDBLOM. Was it a managing committee or an advisory committee?

Mr. CHUBB. Its function was an advisory committee. Whether it was theoretically a managing committee or not I could not say, but as far as I attended the meetings it acted as an advisory committee altogether.

Mr. EDMONDS. From what we could find out and the reason we are interested in this bureau of registry, in the first place there are several European countries which have bureaus that are recognized by the English Board of Trade, or Lloyd's, or whatever it may be—the proper authority in England. We are the second largest maritime nation in the world to-day, and our American Bureau of Registry is not recognized in England.

Mr. CHUBB. That is their own fault.

Mr. EDMONDS. That may be our own fault, but it won't be very much longer when we get through with this legislation.

Mr. CHUBB. No; I think not.

Mr. EDMONDS. Now, we are very much interested in seeing this American bureau become the classification society for our ships, and we want to build it up, and you insurance men will have as much to do with that as anybody. Plans of our ships have been found in the Lloyd's English office, even down to some ships that we preferred not to have the plans found there, and that is a natural result of registering at Lloyd's. It is not anything wrong. If they are registering a ship, they are naturally entitled to it. And there are many other reasons why we should have an American Bureau of Registry, and, as I say, you folks can build it up, and this committee, having charge of that, are asking you about it when you come before us.

Mr. CHUBB. Yes.

Mr. EDMONDS. And we want you to assist us in building this bureau up in any way you can, and we see that here is one place where we can all sink our other relations and stand back of it, and we hope you will do so.

Mr. CHUBB. I might say that our committee has made a report to the Shipping Board, which report has been transmitted to Congress. I do not know whether it has come before you gentlemen or not.

Mr. EDMONDS. I am going to send for it. I have not seen it.

M. CHUBB. I have a letter from the Shipping Board of formal acknowledgment and saying it had been transmitted to Congress. It is a report on which we spent a great deal of time and were pretty painstaking.

Mr. EDMONDS. I am told you are going to be an enthusiastic supporter of the American Bureau.

Mr. CHUBB. I will support the American Bureau, if they will make it efficient, as far as anybody. If it is not efficient, and in the past it was not efficient—if it is not efficient, it is a handicap. But I believe it can be made as efficient as any in the world.

Mr. EDMONDS. Of course, we have to build it up.

Mr. CHUBB. And I think it is up to use to do it. I agree with you.

Mr. CHINDBLOM. Do you think there should be legislation on the subject?

Mr. CHUBB. Well, I think there should be load water-line legislation, and I think that load water-line legislation should be so drawn as not only to have regard to the enforcement of our law, but also reciprocal arrangements with other countries. There is a bill now before you, which I had some part in drawing, because the Shipping Board asked me to go into it after the bill was first introduced by the Department of Commerce, and in the bill now before you, I had a great deal to do with it. I consulted with the Department of Commerce on behalf of the Shipping Board, and I believe that contains all the features necessary for reciprocal action.

Mr. EDMONDS. That would help to build up the American bureau, would it?

Mr. CHUBB. Very much.

Mr. EDMONDS. I was just about to ask in that connection, while we are talking about the load line: Supposing we were to put through a bill limiting that to the use of a load line on registered vessels, that would be of some assistance, would it?

Mr. CHUBB. That would be of some assistance, but the more you can get the better. But I would not let any part go just for the sake of the principle; I would take part of it.

Mr. EDMONDS. We are meeting with very strong opposition on the part of the coastwise people, and I have no doubt they would not like to see a load line established.

Mr. CHUBB. Mr. Edmonds, don't you think that is just because of the theory in the coastwise people's minds? They say, "If you are going to put a load line on our ships, it will be a terrible handicap." I have talked to a lot of them. They say, "Why, we load our boats to within 5 or 6 inches of the water, and then we put a deck load on over the free board besides that." And I think any proper rules would not interfere with the deck load, because the deck load is a part of the freeboard. And I think this bill that is before you—I am talking about something, perhaps, that does not fall here, but it is a subject in which I am interested.

Mr. EDMONDS. It belongs to the committee generally, and this testimony will prevent our asking you the same question again, perhaps, because we will take this over to the other committee.

Mr. CHUBB. This bill that I drew up provides, as I recollect it, "in the discretion of the Secretary of Commerce." If I happened to be in that splendid position of Secretary of Commerce, the first thing I would do, I would say "For the present I will adopt the rules as to ocean traffic that England, Norway, and the other countries have adopted. In the coastwise traffic I will make up my own rules." And they would be based on the ideas of men who understand that problem, partly. And then I would go into an international conference.

But, in the meanwhile, I think it is a disgrace that we are the only country without a load water line law. I was speaking to Mr. Thatcher last night about this load water line, and I said I thought it was strange that nobody before had spoken about the effect on insurance rates of the load water line. It has some influence on the insurance rate. But, after all, we would base our rates on our experience; and, so far as it is abused, we try to take care of it in the rate. But the reason these underwriters—I think, most of us—are interested in it, we see the abuse of overloading, and we see what it

means in the loss of vessels and men; and, quite apart from our selfish interests, any man who has seen that thinks something ought to be done to protect the unselfish vessel owner. The unselfish owners do not need a loat water line; but when you put them in competition with a man who does, he can load a foot deeper than they can; and it is all wrong.

Mr. EDMONDS. Naturally, it leads to a condition where one man is being treated entirely different from another man?

Mr. CHUBB. Absolutely.

Mr. EDMONDS. It would tend to stabilize your insurance rates with a load water line, and probably tend to stabilize your foreign insurance rates—that is, to bring the two rates nearer together, I should think.

Mr. CHUBB. It would. Before you leave me on the Government, there is one question I would like to bring up as regards the Government matter, and that is to this effect: I read in Mr. Ogden's testimony the way we made rates for the Shipping Board was on a basis of taking the companies' rates less 25 per cent. I had charge of that down here, and that is not entirely true. You could not take company rates on a great many of those boats, because nobody knew what the company rates were. These rates represent my estimate of the distribution cost of the business; that is, I tried to put a rate on that would distribute the losses so that the losses and premiums came out as even as possible at the end of the period. That is simply the judgment of the experienced men trying to do that.

Mr. EDMONDS. Would that have been the same judgment you used in your own business for setting a rate?

Mr. CHUBB. Yes; it would have been our own judgment, except——

Mr. EDMONDS. Excepting it would have been the current rates?

Mr. CHUBB. No; we do not know what the current rate is.

Mr. EDMONDS. I say what you in your own business would judge to be the current rate?

Mr. CHUBB. Except I would have allowed something off, because the Shipping Board had no taxes and things like that. And Mr. Ogden's testimony referred to 25 per cent off the rates. That is, in trades where we had a criterion, my recollection—I can not verify this—is that that 25 per cent was 25 per cent off the gross rate, but really only 15 per cent off the rate the shipowner had.

Mr. CHINDBLOM. Before we leave the subject of the American Bureau of Shipping, do you think the bureau should have a legal status—should be recognized by law?

Mr. CHUBB. This report goes very fully into that. It has been signed unanimously by every member of the committee, and it goes into that point.

Mr. CHINDBLOM. All right.

Mr. CHUBB. I think it would perhaps save you some time if I did not try to go into that now.

Mr. EDMONDS. The question was raised by some bankers in connection with the export of gold in January, 1917, to South America.

Mr. CHUBB. I saw that reference in the testimony, but I have not a very clear recollection of it.

Mr. EDMONDS. It was said that, of course, one of the very strong agencies for the British Government to build up foreign trade was

its facility of handling funds through its different branch banks in all the world, and heretofore our merchants have been forced to conduct pretty near all their financial end of their exports business through English banks. That we all know. Just before the war a number of the larger banks in the country, under the Federal Bank Act which allowed it, started to establish banks all over the world.

Mr. CHUBB. Yes; I knew that.

Mr. EDMONDS. In January, 1917, England prohibited English companies from writing insurance on the exportation of gold except to and from England.

Mr. CHUBB. I could not confirm or deny that, Mr. Edmonds. I do not remember.

Mr. EDMONDS. These banks, the statement is made, then went to our American underwriters in an endeavor to get this gold underwritten, and it was offered to the Federal and refused.

Mr. CHUBB. I can not understand why.

Mr. EDMONDS. Under what circumstances it was refused I do not know.

Mr. CHUBB. I do not, either.

Mr. EDMONDS. Mr. Rush said the other day the rate was not high enough.

Mr. CHUBB. That might have been.

Mr. EDMONDS. But, of course, the rates being so elastic in the marine business, the men who did not want to take it might have made it too high especially for that purpose.

Mr. CHUBB. Of course that was in time of war, you know, and war rates were high.

Mr. EDMONDS. This was before the war.

Mr. CHUBB. But if it went in an English bottom, of course it was subject to capture. I do not know whether it did or not.

Mr. EDMONDS. Of course a proposition of that kind was so vital to the extension of the American export business that it seems to me our companies would never have listened to what England wanted to do but would have extended, as far as possible, their lines to take care of our exports. I think you will agree with me there.

Mr. CHUBB. I think they would, too. Just as an illustration of that, Mr. Edmonds, you take when cotton was allowed to go to Germany. Personally, I am frank to say I had no sympathy with the German cause, and I did not want cotton to go there, but I represent an American company and I thought it was incumbent on me to write lines in the Federal on that cotton, and I wrote lines in the Federal on that cotton, and every other company I knew of in America wrote lines on that American cotton.

Mr. EDMONDS. That goes to what I said, that you are international; you have business affiliations all over the world, and you could not help it.

Mr. CHUBB. Yes; but when I saw it in the report in your own testimony, that was when you referred to controlled companies.

Mr. EDMONDS. No; you were not put in the list of controlled companies; you were put in the list of allied companies.

Mr. CHUBB. Excuse me; in Mr. Hedge's testimony, when "control" was used, he asked if that applied to the Federal, and Dr. Huebner said "yes."

Mr. HUEBNER. I made a distinction.

Mr. CHUBB. I do not think you made that impression on the ones who listened to you.

Mr. HUEBNER. I made a distinction between one legally controlled and the company that is allied——

Mr. CHUBB. And virtually controlled. We are not virtually controlled.

Mr. CHINDBLOM. Will Prof. Huebner differentiate?

Mr. HUEBNER. There is a sympathetic relationship, because the management of the American company also manages the domestic business of the foreign companies, and where a large amount of the reinsurance is placed in those companies.

Mr. CHUBB. There may be a sympathetic relationship, but that that sympathetic relationship in the hands of any patriotic American results to the detriment in any way of the Americans in this country I absolutely and flatly deny.

Mr. EDMONDS. Was the insurance of the Sugar Equalization Board placed in this country?

Mr. CHUBB. Entirely, I believe.

Mr. EDMONDS. Was it retained in this country or reinsured in foreign countries?

Mr. CHUBB. I could not tell you. I can tell you as regards our line.

Mr. EDMONDS. Your line in the Federal was 30 per cent?

Mr. CHUBB. Thirty per cent. I can also tell you the theory on which I understood the four companies' wishes were respected, although, as I said, I had no knowledge of the way the business was arranged for, or anything before the business was put before us and I was asked if I would take it, and I said I would take it.

Mr. CHINDBLOM. What did you understand was the theory?

Mr. CHUBB. My understanding of the theory was the companies they wished were companies that had been insuring their refineries before. For instance, under this agreement, the Federal Insurance Co. which—although it has the same name, is in no way affiliated with the Federal Sugar Refinery Co.—had always done the Federal Sugar Refinery's business, and they stipulated when a loss occurred under this policy they did not want to deal with anyone but the Federal Insurance Co., and under this policy if a loss occurs the loss will be settled for through me. For the Warner Sugar Refinery, the Atlantic Mutual would do it. That was the basis.

Mr. CHINDBLOM. Was your percentage of insurance about the same as the percentage of sugar handled by the refinery company?

Mr. CHUBB. I do not think so.

Mr. CHINDBLOM. The Federal Sugar Refinery Co. would hardly handle 30 per cent?

Mr. CHUBB. Oh, no; I should not think so; no, sir.

Mr. CHINDBLOM. Of the output?

Mr. CHUBB. I presume the American Sugar Refinery has very much the larger business and the Federal is the smallest of the three; I do not know. I think the Warner have the smallest. It would probably be the American, the Federal, the Warner, and the Arbuckle.

Mr. EDMONDS. It was the intention of the board to place that with American companies?

Mr. CHUBB. That is to be placed with American companies.

Mr. EDMONDS. But somehow or other 30 per cent escaped to the American-Foreign, which is owned by a very small percentage of American interests.

Mr. CHUBB. Absolutely. I can not conceive that the committee placing that did not know that, because there was no reason they should not know it. Everybody does know it.

Mr. EDMONDS. I presume, considering the circumstances, most of it was reinsured on the other side, anyhow.

Mr. CHUBB. I should not think so.

Mr. EDMONDS. It was a pretty heavy risk to carry?

Mr. CHUBB. I can only speak for our own share. I have no objection to telling you on the record exactly what we did with our share. We got 30 per cent. Of that we insured——

Mr. CHINDBLOM. Right there, you covered more than the Federal Sugar Co.'s sugar?

Mr. CHUBB. Oh, we covered 30 per cent of every blessed thing.

Mr. CHINDBLOM. Thirty per cent of the whole thing?

Mr. CHUBB. Thirty per cent of the whole thing, and we reinsured under instructions, I believe, from the committee—although I was not in New York, but I am pretty sure of that—we reinsured, on instructions from them, in the Great American Insurance Co., three-twelfths; in the Aetna Insurance Co., one-twelfth; the Northern Underwriters, one-twenty-fourth. That is what we reinsured. Then we took the balance of that. I think that would be somewhere around 11 per cent of the whole value that we reinsured in that way. The balance of it we divided up among our companies in the way we had always divided up the sugar business.

Mr. EDMONDS. None of that was reinsured in the other four companies that you manage for?

Mr. CHUBB. As I say, the 11 per cent was done there, and the balance, the other 19 per cent, was divided up in the same way we had always done with the American Refinery Co. business. That would be, as I recollect, offhand, 65 per cent of the remaining 19 per cent would be reinsured with the British companies we represented. That is an approximate figure.

Mr. THACHER. British companies admitted to the United States?

Mr. CHUBB. I think the committee understands.

Mr. EDMONDS. Is any member of your firm a member of the British Association of Foreign Managers?

Mr. CHUBB. No; absolutely not.

Mr. EDMONDS. That is the name of that association, is it not?

Mr. CHUBB. I do not know, Mr. Edmonds. I think it is the American and English Association.

Mr. EDMONDS. It is a social organization, I presume. Most of these business organizations are.

Mr. CHUBB. Nobody is a member of it anyhow, whatever it is.

Mr. EDMONDS. Of Managers of British Insurance Companies in Foreign Countries?

Mr. CHUBB. Nobody——

Mr. EDMONDS. It is quite a large association?

Mr. CHUBB. No member of our firm is a member of it, whatever it is.

Mr. EDMONDS. It is quite a large association, and I thought somebody could tell us.

Mr. CHUBB. I would not be sure there was such a thing.

Mr. EDMONDS. There is such a thing. I thought on your end of the line you could tell us who were the members.

Mr. CHUBB. I do not know.

Mr. EDMONDS. In making up these pools, like the burlap pool and the cotton pool, did the division fairly well follow the lines of insurance that were held by these different concerns before?

Mr. CHUBB. Yes; I should think that that was the controlling thing, although I would not recognize them under the name of "pool." We consider them reinsurance arrangements.

Mr. EDMONDS. Of course, you do not call them "pools"; but yet, at the same time, I suppose it is the best word we can use without going into an explanation every time we mention it.

Mr. CHUBB. Reinsurance arrangement has a meaning in our business.

Mr. EDMONDS. It is a reinsurance arrangement; yes. Did you know Mr. Roberts?

Mr. CHUBB. Yes.

Mr. EDMONDS. Chairman of the Indemnity Mutual?

Mr. CHUBB. I met him within six months. I never knew him before. He was an underwriter, I think. I do not think he was chairman; at least, when I knew him he was an underwriter for the Indemnity Mutual.

Mr. EDMONDS. Possibly that may be his position. He seems to feel very friendly toward the English market. What is the Indemnity Mutual?

Mr. CHUBB. I think the Mutual is merely part of the title as I understand it, or else it ceased to be mutual. It is a prominent, well-known English insurance company.

Mr. CHINDBLOM. Maybe the stockholders share mutually?

Mr. CHUBB. I do not know what it means, but I have never seen anything that indicated any mutuality in their actions.

Mr. EDMONDS. Of course, during the incumbency of your office here with the Shipping Board, you virtually suspended operations, I presume, with the different interests you were connected with?

Mr. CHUBB. I have very little to do with them. I was down here practically the whole time.

Mr. EDMONDS. One thing that struck me peculiar was that looking over these pool arrangements, or reinsurance arrangements, the four concerns that seemed to have larger international arrangements than any other concerns in the country seemed to get a majority interest in all of these pools. Was there any reason for that?

Mr. CHUBB. The only reason for that would be that they originally had more of that business at the time the reinsurance arrangements were formed on their books.

Mr. EDMONDS. I suppose in your case, in the burlap pool, consideration was given to the fact that you were not only managers for the Federal Insurance, but you were also managers for these foreign companies?

Mr. CHUBB. Oh, yes; that was considered.

Mr. EDMONDS. And that would be considered in making up the insurance you underwrote?

Mr. CHUBB. Yes; that would be considered.

Mr. EDMONDS. All of these associations, I think, as testified, make rates; that is, a great majority are made for that purpose—not make rates, but recommend rates.

Mr. CHUBB. No; I do not think that is true. For instance, you are not bound.

Mr. EDMONDS. You are not bound. I mean the recommendation.

Mr. CHUBB. No; it is a rate for reinsurance. For instance, take it on burlap: We have a great many accounts of quite different rates. The rate on which the burlap agreement took part, they included certain risks, and we have it in a different way. Our policies are not identical with the reinsurance policies at all. But, of course, it does have the effect of making a basis.

Mr. EDMONDS. According to our records, I think a few of those associations, like the Atlantic Inland or the Lumber Agreement on the Great Lakes, the Joint Grain Certificate arrangement—they are all reinsurance arrangements, probably, and consulting associations, very probably, with the idea of exchanging experience and getting an idea as to what should be the rate. Really I do not see how you could make a basis unless you did that.

Mr. CHUBB. As a matter of fact, however, they do not in many cases. In the associations to which I belong—I do not belong to all of them—the rate recommendations is not a prominent part.

You mentioned the Lumber Association and you mentioned the Joint Grain Certificate. On that I think the division of the business is the important thing. The rate making is effectual, too.

Mr. EDMONDS. And it would be natural in a business of that kind it was contemplated.

Mr. CHUBB. The Atlantic Association is the same thing.

Mr. CHINDBLOM. Take, for instance, the burlap arrangement or agreement: Have you any common underwriter who acts on behalf of all the members in recommending these rates?

Mr. CHUBB. My recollection is that at the time that was formed a scale or basis of rates was drawn up and that there has been very little change in those except to meet certain contingencies.

Mr. CHINDBLOM. How were they drawn up? Did you designate your various office underwriters to prepare those rates for you or did you employ some one on behalf of the entire organization?

Mr. CHUBB. Oh, no; we did not employ anybody on behalf of the entire organization. It may have been done by a committee, in sort of a town-meeting affair; I do not really remember about that. I do not think I was present, although probably I was.

Mr. CHINDBLOM. Do you retain anybody whose business it is to look after the affairs of this burlap arrangement?

Mr. CHUBB. There is a secretary. I could not tell you whether he gets compensation or not. I am under the impression he got a per cent and I think five or six hundred dollars; something like that. I am not sure now.

Mr. CHINDBLOM. Is he an employee of some of the other companies in the agreement?

Mr. CHUBB. He is an underwriter for one of the smaller companies in the agreement. I think at the time he took the position first he was connected with the German companies.

Mr. CHINDBLOM. Do these other reinsurance arrangements, that have sometimes been called "pools" here, have secretaries or clerks or executives?

Mr. CHUBB. The cotton arrangement have Albert Wilcox & Co., who act and receive compensation for their services.

Mr. CHINDBLOM. Do you know of any other arrangement which has a similar secretary or employee who does that work?

Mr. CHUBB. No; I do not think in any case the secretary actually does the work. I think, for instance, in the burlap, if a new thing comes up, the secretary goes around and gets a slip initialed by everybody agreeing to accept reinsurance on such a basis. He comes in and talks with me and says, "will you accept this at five-eighths or a half?" and I say "Five-eighths," and the same way with Mr. Rush; and then he goes around to the other members.

Mr. CHINDBLOM. And then you initial it to show your approval?

Mr. CHUBB. I initial to show my approval, because otherwise it would not attach as part of the reinsurance contract.

Mr. CHINDBLOM. What other arrangements are there, to your knowledge, aside from the burlap arrangement and the cotton—those are the only two you have spoken of?

Mr. CHUBB. Just those two of just that kind. Of course the Atlantic Inland; they have a rating commitee.

Mr. CHINDBLOM. There is no sugar arrangement?

Mr. CHUBB. No sugar arrangement. Of course, on this particular policy, these particular companies meet together with the representatives of the committee and discuss rates.

Mr. CHINDBLOM. What policy do you mean?

Mr. CHUBB. There is a policy taken out, I think, by the Sugar Control Committee. It is the one we have been discussing. On that I think all the underwriters concerned who want to reinsure——

Mr. CHINDBLOM. That is as long as the sugar business is controlled by the United States Equalization Board?

Mr. CHUBB. That is all.

Mr. CHINDBLOM. Is there any arrangement or understanding on coal?

Mr. CHUBB. I do not do any coal business. I do not think there is. I do not know about that.

Mr. EDMONDS. How about coffee and hides?

Mr. CHUBB. No such arrangement.

Mr. EDMONDS. They are free?

Mr. CHUBB. Yes; there are two ends to it. I mean by that you have always to consider in all this, as you gentlemen fairly well know—you have to consider the question as to what the other end will do.

Mr. CHINDBLOM. There is no general arrangement for miscellaneous shipping?

Mr. CHUBB. None.

Mr. CHINDBLOM. I suppose that there could not be.

Mr. CHUBB. It never has been possible. It has been attempted a great many times. It would be necessary to get an agreement of the markets of the world, because you have to get at both ends of every transaction.

Mr. EDMONDS. Was there not a few years ago a friendly agreement in reference to hull insurance by English and American underwriters,

by which a certain per cent of the insurance was left in this country?

Mr. CHUBB. Never.

For the time when you sad "by which a certain percentage was to be placed in this country." That is what brought by answer of "Never." There have been a great many attempts to work together for the two markets, and I think for a short period they did, but it was darn short.

Mr. EDMONDS. I suppose Johnson & Higgins got quite a batch of business and took it from one side to the other and the first thing it all went to pieces?

Mr. CHUBB. I do not know they were the particular ones that did it, but that is a pretty good idea of the way these things go.

Mr. CHINDBLOM. Somebody did.

Mr. CHUBB. There was a temptation and a failure to resist.

Mr. EDMONDS. I mentioned their names because they have not been before us yet to tell us how patriotic they are. I might have to change that from Johnson & Higgins to somebody else later. I can see in this business that the broker is a pretty active factor.

Mr. CHUBB. A very large factor.

Mr. EDMONDS. And a very troublesome factor a great many times.

Mr. CHINDBLOM. He is quite a necessary institution though, is he not?

Mr. CHUBB. I hate to admit it, but maybe he is. He certainly does perform a function; you can not get away from that fact.

Mr. EDMONDS. Brokers have a place in all businesses, but they can only exist successfully in competitive businesses, and ordinarily a broker in a noncompetitive business does not exist.

Mr. CHUBB. Mr. Edmonds, is the fire insurance business competitive to-day? I suppose it is to a certain extent.

Mr. CHINDBLOM. It is competitive as to who is going to get it; it is not competitive as to rates.

Mr. CHUBB. No; it is not competitive as to rates, but it is keenly competitive as to who is going to get it.

Mr. EDMONDS. There is keen competition in that line; yet at the same time, if an insurance company started out to do some business itself, it would have to spend just as much money.

Mr. CHUBB. I think they would.

Mr. EDMONDS. And I think these companies recognize that and are perfectly willing to let the agent go out and the best business getter gets more than the one who is not such a good business getter, and the man who gets more business gets more money and gets more consideration.

Mr. CHINDBLOM. What other consideration is there?

Mr. CHUBB. There are lots of other considerations.

Mr. EDMONDS. He gets a little more consideration with the company. Sometimes a man will write more risks with a company by having a real persuasive manner, and perhaps the company would take it.

Mr. CHUBB. You have two men——

Mr. EDMONDS. Perhaps the company may take his risk and write it from the fact they spread it all over these risks, and the other risks are good.

Mr. CHINDBLOM. And of course it always eventually results in a commission; that is the idea.

Mr. EDMONDS. Is there any territorial division between these various associations?

Mr. CHUBB. The Atlantic Inland Association, of course as its name implies, applies only to the Atlantic Coast and inland waters.

Mr. EDMONDS. To coast and inland business?

Mr. CHUBB. Yes, sir.

Mr. EDMONDS. Do you have to belong to that association to do business in that district?

Mr. CHUBB. No.

Mr. CHINDBLOM. Do you folks down here, handling this ocean business, get any considerable Great Lakes business?

Mr. CHUBB. Yes; we have, personally, a big lake business.

Mr. CHINDBLOM. Mr. Chubb, are there companies who limit their business largely, or as much as they can, to the Great Lakes business, say?

Mr. CHUBB. I do not know of any company at the present time that does that. There were companies formed out there just for that purpose, but it is really a foolish thing to do. It is foolish to limit yourself to any one class of business any more than you can help.

Mr. CHINDBLOM. As a matter of fact, the hazards are as great on the Great Lakes as on the ocean, are they not?

Mr. CHUBB. They are entirely different, but they are quite great.

Mr. EDMONDS. Mr. Hedge covered pretty well the tax question, but let me ask you this: Has the Federal tax had any effect on the insurance rates that you know of?

Mr. CHUBB. None that I know of. I can not trace it.

Mr. EDMONDS. Is the English rate the same rate?

Mr. CHUBB. The English what?

Mr. EDMONDS. The Government tax. I am not talking about the State tax: I am talking about the general Government tax.

Mr. CHUBB. I do not understand, except on excess profits, that the English companies are subject to any tax.

Mr. THACHER. I understand they pay an income or excess-profits tax on profits averaged for a three-year period. So you see they are taxed on profits. The British companies are taxed essentially on profits. The American companies are taxed both on gross premiums they receive and profits, and also upon profits under the excess-profits tax to the Federal Government. So a company in this country may be losing money, but it pays the State tax on the gross premiums, notwithstanding: that is the point.

Mr. CHINDBLOM. And the English taxes are collected or fixed once in every three years?

Mr. THACHER. It is on an average, as I understand it, of the three years' business, and if there is a profit in those three years a certain tax is imposed upon them, and not otherwise. They pay no premium tax whatever, as I understand it.

Mr. EDMONDS. Mr. Chubb, do the brokers—you are pretty conversant with brokers, because you must naturally be, under your management agreement, pretty closely in touch with them——

Mr. CHUBB. Yes.

Mr. EDMONDS. Do they have any understandings or agreements between each other?

Mr. CHUBB. Not generally; no.

Mr. EDMONDS. How is it as to foreign nations? Do they have understandings and agreements with foreign companies?

Mr. CHUBB. I do not think so; no. I know of none.

Mr. EDMONDS. Are they under obligations where they have an agent or agency in London—I do not mean their own business, but I mean the other party who is their agent also there and they are his agent here?

Mr. CHUBB. Yes.

Mr. EDMONDS. Do you have an agreement by which the business is to be divided up between those brokers, so that he is forced to send so much to the British agent?

Mr. CHUBB. I know of none and I doubt if any exist.

Mr. EDMONDS. And so much to his American agent?

Mr. CHUBB. I know of none.

Mr. EDMONDS. We have had testified here—and you have been closely in touch with the Shipping Board ideas and understandings in connection with the merchant marine—that the English are making a lower rate on American hulls to-day than they are on their own. Why is that, in your opinion?

Mr. CHUBB. I do not know that the English are making a lower rate on their hulls than they are on ours.

Mr. EDMONDS. No; lower rates on our hulls than they are on theirs.

Mr. CHUBB. I do not know that. Of course, it is very hard to arrive at a comparison, because most of our boats have gone there. On our boats we take a special rate, due to the special construction of our boats or the special trade. I do not know whether—I simply do not say one way or the other—I do not know whether an American boat with a world-wide privilege which can be written now in London at 5 per cent—whether an English tramp steamer would be written higher or lower. I simply do not know that. I do know there has been a uniform advance of 10 per cent or, rather, two or three advances on British hulls, and there has been no corresponding uniform advance on the American hulls that were placed in Great Britain. I asked Mr. Roberts—you referred to it when he was over here—I said "How do you get away with a thing like that?" I said "If we were to keep the rates down on the English hulls after advancing the American hull rate three times, we would have Congress or the Shipping Board after us pretty quick, and I admire the way you do it. How do you do it?" He said "We can get it in the one case and we can not get in the other."

Mr. EDMONDS. Mr. Roberts was quite optimistic as to what was going to be achieved by the English insurance companies when he was over here.

Mr. CHUBB. He did not talk in that strain to me. He made me a rather flattering offer, but I did not accept it.

Mr. EDMONDS. I am going to ask you something in regard to legislation. Have you framed any ideas in your mind in regard to that?

Mr. CHUBB. Mr. Chairman, I have got one or two things that, if you do not want to ask me any particular questions, I would like to bring up along that line, but it is just a little preliminary, because I think I have thought as much about this subject as any underwriter, because I began to think about it a good deal when I was asked to prepare an address to the Foreign Trade Council in 1917,

of which the committee has a copy. In fact, I have been thinking about it all my life. I drew the attention of the superintendent of insurance in New York, in the early part of 1900, to the fact that we were discriminated against in taxation by this exported insurance we all had met, and a bill was introduced, but it never got out of committee, dealing with that very point, so I have thought about it a good deal, and I have certain views.

Mr. EDMONDS. Suppose you go ahead and give your views.

Mr. CHUBB. I made some notes this morning about some things on which I wanted to explain to the committee my point of view. I heard a good deal of talk yesterday about why Americans take foreign companies, when, as a rule, the Englishman, the Norwegian, and the Frenchman prefers his own company. I think that our old State laws were very much to blame for that situation myself. That is not only so in marine insurance, but it is the same with fire insurance.

Mr. Thompson told you that the Royal Insurance Co. is able to sell its policy right alongside of the Continental, although I do not think the Continental would have any difficulty selling its policy in England alongside of the Royal. It is merely because of the restrictive State laws that we had that American companies were forced in the early days to go to the foreign companies. The home companies made good and paid their losses well, and the people are recognizing it. Mr. Thacher could state when New York State amended that law allowing fire companies to write marine insurance.

Mr. THACHER. In 1910 or 1911.

Mr. CHUBB. Until 1910 New York, which is the center of marine insurance, because the banking facilities are there, would not allow a fire company to do both fire and marine insurance, and the result was that our big fire companies could not get into the business there. I think it was stupid legislation. I do not see any gain by it whatsoever, but it was so. There were a few companies that were allowed to do both fire and marine because they had done it prior to 1878 or 1879, when they changed their laws. They changed the law because there were not many American companies doing a marine business only, and the natural reservoir was the company that had big assets, big capital, so these big fire insurance companies would also take up marine. In England they had a great many companies, in Germany they had some, and in Norway they had some more that were simply doing a purely marine business. They could come in.

The North America was in New York because it had got in before that law, but it was not an important marine company. The Continental was helpless. It could not do it if it wanted to. That was one reason that the foreign companies got a big hold, and the reason they held it is that they did their business well, managed it well, and paid their losses well.

Mr. EDMONDS. And in a free field like that had a chance to build up their organizations very strong?

Mr. CHUBB. And they had a chance to build up their organizations. In the second place, this very protective American system of supervision made the assured feel safe in taking any company that was passed upon by New York and Massachusetts and maintained its deposits over here. At one time one of the English underwriters

was over here and I was speaking to him about one of the German companies having cut rates on specie. They had a pool of all the German companies, and they were operating through one German company, and they were cutting rates on specie. I said, "What do you do in London when they come up against you?" They said, "We do not pay any attention to it. If a man wants to take a German company, and feels that it will take care of him, let him do it." I said, "Those companies will be taken over here because they have their deposits over here, and they are genuine entity." Here is the insurance report that shows that it is good security, and it was, and the war proved it. That is all I have to say on that particular question.

As to the hull business going to London, and why it went there, since I came downtown in 1895 or 1896, I have always been very interested in the hull business, because it makes an appeal to the underwriter to try to find a way to get ahead of it. Very little business was done in the United States. The business that was done here was done in this way: A man would come in and say, "Will you take the Mallory Line at 4 per cent?" He came in to you and said, "Will you write the Mallory Line on the same terms as London?" You would say, "Well, what are the London terms?" "Well, we will let you know those next week. Will you take the line?" But that has changed. There have been fluctuations, but the man here controlled the market, as far as the control rested anywhere, and in the last 10 years we have done more in America than anywhere else with American hulls. I think it ought to be all here, but I do not know just how that is going to be accomplished.

Mr. Edmonds. Right on that point of hulls, did Mr. Hurley consult with you before he recommended the Government insurance on the remaining interest of the Government in these ships that were sold?

Mr. Chubb. Well, I do not know that he consulted me. He told me what he was going to do and he asked me to comment on it, but I do not think you would call it consulting, because he did not put it in that shape. He asked me to come to see him when I was in Washington, and I called to see him, and he said, "Mr. Chubb, the American companies could not take care of all these boats if they were offered to them." I said, "I doubt that; I think they could. I have been informed that they can." I said, "That is a matter of opinion. We have got the qualifications, and there is enough capital here to do it, and I think that if they are offered a fair rate the underwriters could absorb the whole of it." He said, "Don't you think it would be better to give it to them gradually?" I said, "I really do not think the underwriters care very much whether they get it gradually or not, but I believe it could be taken care of in either case." That is all the consulting Mr. Hurley did with me about it.

Mr. Chindblom. Did he tell you what he was going to do?

Mr. Chubb. He told me in such a general way that I rather inferred that he would. I go out of the Shipping Board as soon as the war was over. I put in my resignation to take effect as soon as I could get the department organized to go on without me.

Mr. Edmonds. Do you really think that as these ships, the million or two million tons a year, were sold and went out into the market,

everything being equal in the way of rates, and so on, that they could be taken care of in this country now?

Mr. CHUBB. I think they could still be taken care of. Until you try a thing you never quite know, but I think you will find that is the opinion not only of myself but of other men who are pretty well qualified to pass an opinion.

Mr. EDMONDS. If the risk was spread properly over a number of companies, none of them would have gone wrong on any one steamer, and your premiums would make it up on them.

Mr. CHUBB. You have got a very big spread there in the Shipping Board, and for one price they carry their own risk. You have got that very big spread on a uniform type of boat. If you are are not given a rate that is adequate you may not want to write such a big loss, because you have got a pretty big spread. If you do not have the spread you can not write at all. That is the trouble.

The other point I wanted to talk about is why I think the hull business went to London. The hull business went to London very largely through a power of the broker, and by that I do not mean the power of the American broker, but I mean the power of the English broker. It went there, as I told you, when I first came down town, and it was going there in very big amounts. Since I have been in business I have made two trips to London. I was over there once in 1908, and Mr. Haslup, who was an underwriter for an independent company, and was writing American business, asked me to come in and talk to him. They were doing not only ocean business, but writing our sound lines over there. He said to me, "I have been swindled on this business." I said, "What is the trouble?" He said, "Look at this valuation. Here is a boat that is valued for hull at $250,000, and she cost $500,000." I said, "Mr. Haslup, where did you get that information that she cost $500,000?" He said, "I know it." I said, "I will tell you it cost a million and a quarter." That was an indication of the way they did it.

And why could they do it that way? Mr. McKee told me yesterday that Mr. Sedwick, who is an important broker in London handling Mr. Mather's business told him that in 25 years he had never received a remittance from Mr. Mather, but that Mr. Mather's American business had always taken care of the premium on the new business. If the American hull business was a small business, it was in particular trades; it was not a spread of business. It was in the coastwise trade, and it did not come over good, so it was not very much of a temptation to the American underwriters to go into it. It goes over to London and it goes into the hands of a broker like Wallace Fabar, but it is an enormous English business, and he slips on a fleet of American vessels at the end of a lot of English vessels, and he comes to an underwriter and the underwriter sees that fleet and he says, "I will not take it"; and he gives up the slip with all the other business on it. If the American business is a small part of the whole business you can go on doing it almost indefinitely, but if the American business became 50 per cent of the whole business, and he wrote it below cost, he could not afford to take that attitude. That is why I think the situation in the underwriting must correct itself.

Mr. CHINDBLOM. What is the purpose of that English broker in doing that?

Mr. CHUBB. To get a commission, and nothing else. If the business is not placed there he does not get a dollar's worth of commission.

Mr. EDMONDS. As I understand, he forces the underwriter to take this risk along with the balance of the insurance, in order to get the commission? In other words, he gives him a bad risk along with the good risks, because they take the business?

Mr. CHUBB. I know of one specific case where the Canadian Pacific fleet and some other good fleet were made the head of the slip and the tail of the slip was a small American fleet, and the American market lost that fleet, but we would have been fools to have kept it.

Mr. CHINDBLOM. But the rates were low on the American fleet. Could they not have advanced them some?

Mr. CHUBB. Who?

Mr. CHINDBLOM. The English companies?

Mr. CHUBB. The point is that if I can quote lower than some one on something I can get this good commission. If he gets somebody to go lower, good night to my commission. That is only one of the reasons. But it is a reason.

In the second place, on the hull business to-day, in the State of New York we are paying a tax of, I think, on a 5 per cent rate, as estimated. I made use of it in this committee report here. We paid a tax to all our States of something like $125 on a loss of $100,000, at 5 per cent, and if England makes a tax of 25 per cent on the same premium, they have got an advantage of $100 on that risk. That is some advantage. It is not a tremendous advantage, and yet, if I get a lot of hull business herein and hereout on a 3 per cent profit, I would think it was a very nice business to cultivate.

Mr. EDMONDS. Is the hull business generally written by the year?

Mr. CHUBB. Practically altogether.

Mr. EDMONDS. Not in longer terms than that?

Mr. CHUBB. No; it is never written in longer terms.

Mr. EDMONDS. A year is the limit?

Mr. CHUBB. A year, and they have what they call the continuation clause for a boat in port.

Mr. EDMONDS. Is it your idea that the foreign underwriters, in taking out this hull insurance at the present time, will gradually find out that they are basing their premium rates on the wrong basis, and our market will again become active?

Mr. CHUBB. I feel very confident of it. I do not know when that will take place. It takes a long while. You do not get your claims on hull policies until a year after you have written your premium.

Mr. EDMONDS. It would occur much quicker if the ships of the Shipping Board were out in private hands to-day?

Mr. CHUBB. Yes; but the situation can cure itself, in my opinion, by adverse experience. If the low rates are right they have come to stick.

Mr. THACHER. It may be interesting to the committee to know that in some of the States where a vessel is registered it pays a triple tax on the same premium.

Mr. CHUBB. That is true.

Mr. CHINDBLOM. Explain that a little more fully.

Mr. CHUBB. The States have different systems of taxation. For instance, suppose I am writing a policy in New York. No matter where the property is located, the tax comes to New York. Some of the other States say that if you write property in that State, no matter where you write it, you pay a tax on it, so they get you going and coming. The only way is to write that risk in that State where it originates and get it out from New York. Of course that can be done, but it causes trouble.

Mr. EDMONDS. Do you tack that on the assured now; put that in the policy?

Mr. CHUBB. No; we can not, because the protective situation will not let us. I am frank to say that if we could we would.

Mr. EDMONDS. Go on.

Mr. CHUBB. Those are the only explanations I have. One other point is this. I think you have got to recognize that the American underwriting companies have not yet gotten very great experience in writing hulls with world-wide privileges. There have been practically no American fleets of that kind, so the foreign underwriter has more experience in that respect than we have. So it may be that his guess may prove right. If it does, we may have to change our laws. I do not think so. I have had a good deal of experience in other underwriting, and some little in ocean.

Mr. EDMONDS. Have you some more suggestions to make there?

Mr. CHUBB. There are one or two points I wanted to bring up as to that, but I can take them in any order you like.

Mr. EDMONDS. Go ahead and give them. It will keep your statement connected.

Mr. CHUBB. I want to say a word on the question of disabilities. There is no disability that an American company has that is not shared by the foreign-represented company to-day, but there is practically no disability in doing American business that the American and admitted companies have that is shared by the foreign nonadmitted company, although they have one or two such as cabling. I think they have one or two disabilities that more or less work out except as to equality, that has been brought about by this 3 per cent Federal tax, which has added a 3 per cent expense ratio to the foreign companies doing business, particularly on hulls, that they did not have before, and which, at best, is purely an equalizing tax. I think that you will find that it is an equalizing tax, or somewhere near it.

Mr. EDMONDS. That, of course, does not reach exported insurance.

Mr. CHUBB. We want it done. I do not believe there is a single broker to-day that is not paying that tax on the business he places over there. I spoke to one of them about it and he said, "My opinion is that it is not legal, but if we pay it now, we can get it out of the shipper. If we do not pay it now, if the Government comes down on us 10 years from now there will not be anybody to collect it from," so they are paying it. They are not paying it on exported business, but very small part of the marine business is exported business.

I have heard a great many suggestions here with regard to improving conditions, and I have thought about them a great deal. I have not seen one that I believe will help the situation. It has been suggested that we can by having a regulation, Federal regulation——

Mr. EDMONDS. No; supervision.

Mr. CHUBB. Excuse me.

Mr. EDMONDS. Our committee does not believe in regulations. We believe in supervision.

Mr. CHUBB. Well, supervision, which, of course, under a different administration may change the regulation and further supervision by the Federal authorities. We are oversupervised to-day.

I can see absolutely no gain to us from a Federal supervision. I can not see one single place where it would be a particle of use to the companies, nor can I see any place myself where it would benefit the public or the shipowning community. I know the committee feels the other way about it, but I have thought about it a great deal.

Mr. EDMONDS. No, the committee is absolutely open minded about it. Of course, we have gone through a shipping investigation, and we naturally came down from regulation to supervision, and we rather felt that that was a remedy decidedly to be desired in the shipping business. It might be possible that it is desired in the insurance business, and we are trying to find out whether that is true or not.

Mr. CHUBB. If you found a condition of extortionate rates, or a condition of unfair practices, that would be one thing. I do not believe you gentlemen in all your investigation—certainly none of you have given expression to the thought—have found that there have been either on the part of the companies here.

Mr. CHINDBLOM. Your belief does not go to such matters as statements, reports, and things of that sort for your own information?

Mr. CHUBB. Yes, I do; I go absolutely to that. Mr. Evans testified yesterday that he was spending $10,000 a month furnishing the States with information. Of course, a good deal of that is for his fire business, but we are up against it in the marine business, and we are competing with companies that do not have to do anything of that kind. In Germany they do not have regulation when it comes to marine companies, because marine insurance is more international in its character and they can not regulate it and they do not regulate it. I am not advancing Germany as a model, but that is a fact. In England they are absolutely free. In Denmark I understand they are free of regulation, although I am not so sure. If you would say, "The Federal Government will take over the regulation of marine insurance and take it away from the States, I would say that is the right thing to do, because it is essential that we have one central person to go to, and it should be worked under similar laws, but you can not say that unless you get a constitutional amendment through, that I see.

You were speaking about the advantage of using this Webb-Pomerene Act so that we could meet and have conference agreements without fear of the law. I am not a lawyer, as you know, but perhaps some of you gentlemen can tell me how is that going

to protect our men when there are to-day merely one or two States where we are doing business. If a State says we can not do it how would that act protect us against that State unless the insurance is under Federal supervision? I do not think it could.

Mr. EDMONDS. The law, as I understand it, has stated that marine insurance is of a national character, and I do not believe that any State would be able to interfere with a company—not exactly with a company, but an association formed under an act like the Webb-Pomerene Act, because, as a matter of fact, no matter what trust laws New York might pass, these companies like the Eastern Steel Co., or some others like that, composed of eight or nine steel manufacturers who are now in the position to export, have formed combinations. In other words, the law against combinations in restraint of trade is wiped out as far as export trade is concerned, and I doubt very much whether any State would question the right of the General Government to give men the right to combine in export trade, and this would be export trade because it would virtually be insurance on something that was going outside of the country.

Mr. CHUBB. Of course, and the ships themselves are in the same line, Mr. Edmonds. However, I give that point as it strikes me.

You asked us in your questionnaire if we could make any other suggestions. I do not have any suggestions to make except that I do believe in the suggestion of the committee that a good District of Columbia law would be an example. I have been up lately before the New York Insurance Department of Connecticut, taking up the question of their marine insurance laws and trying to show them that they have got to get away from fire, casualty, and everything of that kind because the situation is different, and I have spent a good deal of time with them and with the New York department, and they are fairly receptive of that idea and recognize it is so. Some of the States do not recognize it at all.

Mr. EDMONDS. I think we have been trying to help you along with the New York department considerably.

Mr. CHUBB. Yes; and I think that such action by Congress would give it a stamp that would be of great help to us.

There is just one other thought I had that has a possible connection with it. I would not bring it up, because it presents such difficulties, if you had not said that difficulties are the things you are ready to contend with. I have wondered whether it would be possible to have a Federal law, so that we could incorporate a company, a subsidiary company if you please, in the District of Columbia to write hull business, and that company so incorporated under the supervision only of the Federal authorities and subject only to the regular Federal tax, with no premium tax, but a regular Federal tax. I have wondered whether that could be possibly done, and then perhaps two or three of us would go back and say, "We will form such a company to write our hull business in that way—free from these annoyances and free from taxation in every way. I think it would be possible to do it, but it presents a great many difficulties to work out.

Mr. EDMONDS. It might be advisable to look into that, Mr. Chubb, and see. The load-line legislation, of course, you are in favor of?

Mr. CHUBB. Absolutely. Apart from being an underwriter, I am absolutely in favor of it.

Mr. EDMONDS. Would it be to your advantage to have a reinsurance exchange that all the companies belonged to?

Mr. CHUBB. Well, I think there is no reason that we should not have it now.

Mr. EDMONDS. I do not see that there is, but some people would.

Mr. CHUBB. That has been done with one or two classes of business, you see. You must remember, Mr. Edmonds, that the present condition in New York is the condition of the world. That is to say, the marine insurance business has expanded beyond the education of the underwriters. That is to say, we have got a great many new companies, and there are a great many new ones in London. I think there are 30 or 60 new companies in London. Norway and Sweden are full of new companies. France is full of new companies. So we have got an expanded market. There is no way on God's green earth to keep this here. The marine underwriters will have a difficult time for the next few years. I think a great many will draw together in the marine insurance. Take, for instance, in our own office. Ten years ago we placed very little special reinsurance. When we found we had on a bill more than we could bear we placed very little in this market. To-day we place practically all of it in this market.

Mr. EDMONDS. To-day the insurance in this country is in the hands of probably 9 or 10 of the companies, which are old and well-known companies—that is, marine insurance companies—while some of them have gone to new lines.

Mr. CHUBB. I think the premium may be largely under control, because there are a great many more companies.

Mr. EDMONDS. Yes: there are a great many more companies, but most of the companies that went into it just for the war period have gone out very gradually. No doubt there are a number of companies that will stay in the business. What do you think of the idea of having some kind of reinsurance exchange where views could be exchanged, or even, so far as that is concerned, if you had the privilege of dividing up a percentage of the export business, like under the Webb-Pomerene Act?

Mr. CHUBB. I think we have that privilege to-day, Mr. Edmonds. We are doing that in the burlap deal, and I am sure none of us think we are doing anything illegal. I am sure I do not, or I would not be a party to it.

Mr. EDMONDS. I am not a lawyer, so I do not know.

Mr. CHUBB. We certainly do not think we are or we would not do it. I would not come down before you and testify if I thought it was illegal.

Mr. EDMONDS. As I have told you in the first place, I have been in business all my life and I have gone into arrangements, and I know something about them. I do not consider that when you join in with certain men to do a certain business it is illegal as long as you do not oppress anybody.

Mr. CHUBB. Yes; as you do not conspire.

Mr. EDMONDS. As long as you do not rob some other fellow of his right and cut him out of business by such a system, of course, there is no conspiracy: it is an arrangement between men.

Mr. CHUBB. May I ask some questions about this report? I woke up rather early this morning and went over it. I notice, according to those figures, that the American companies doing business were reduced to 63, yet on page 4 this statement is made, "Substantially the same relative importance American and foreign companies found to exist." That is, between 1913 and 1918, as I understand it, although a large volume of business by 1918 had decreased enormously as compared to 1913. Such changes as have occurred since 1913 relative importance in the two classes of companies bear evidence of the fact of this greater foreign control.

I would say you have sources of information in this committee that are not available to myself, but as an underwriter, coming in contact with things, that is a very great surprise to me, because every year since I have been down town the American companies have been growing. I feel perfectly confident of that, whether it is reflected in the premium incomes or not. My recollection is that when I wrote that article for the Foreign Trade Council, in 1912, there were some 30 American companies doing marine and inland of all kinds, and in 1918, according to this, there were 63. The New York insurance report, in their cable I have here, shows that the marine and inland premiums in 1913 were for the several American companies $34,000,000, for alien companies $29,000,000; in 1918 American companies $181,000,000, alien companies $89,000,000. I recognize that part of that increase is undoubtedly due to inland business, but the foreign marine companies also do some portion of marine business, and it is very hard for me to see how that whole relative increase or any part of it is due to ocean marine. I simply do not understand how it can be.

Mr. EDMONDS. I guess the professor can tell you how he arrived at those figures.

Mr. HUEBNER. The New York figures include motor vehicle, tourist package, and registered mail premiums.

Mr. CHUBB. Of course, tourist package, I suppose, is marine business.

Mr. HUEBNER. We may have been wrong with reference to tourist package. The increase in the premium income of the American companies following 1913, as far as inland insurance is concerned, was enormous. The American premium income increased greatly through the motor vehicle insurance, particularly. We took that out and there was comparatively little change. The remarkable thing is that after you took out those three inland forms of insurance, the showing in 1913, 1917, and 1918 was strikingly constant. There was a slight increase, as regards these figures with reference to the companies that had branch offices in this country. The figure for the Federal was included because the Federal was considered sympathetic. They were related, not legally controlled, but very closely related.

Mr. CHUBB. I want to say, Mr. Chairman, that I object to the Federal being put in anything but with the American companies all the way through, and I think I have given you good reason why I should object.

Mr. HUEBNER. I do not mean to say that it was controlled in any way legally.

Mr. CHUBB. No, nor morally, nor spiritually, nor in any other way you can put it. That is all I have to say, Mr. Chairman, and I am very much obliged to you for your courtesy.

Mr. EDMONDS. We had to draw these companies up into some sort of line for reference.

Mr. CHUBB. I understand. I do not object to some sort, but I do not like your line.

Mr. EDMONDS. You do not like our division, and yet it seems to me that it was a very natural division to put you and Mr. Appleton——

Mr. CHUBB. It may have seemed a natural division, but I submit, under the facts that I have given you, and every one of them can be verified, that the division ought to be changed as far as the Federal Insurance Co. is concerned.

Mr. HUEBNER. There was one thought in mind, and one that was taken into account in making that classification, and that is with reference to reinsurance. The Federal reinsurance is a very large amount, according to the data.

Mr. CHUBB. That is on the basis of its exchange.

Mr. HUEBNER. The reinsurance premiums reported by the State of New York for the Federal amounted to $7,279,000, in round figures, out of a total gross premium of $12,514,000, but from that must be deducted $1,295,000 or returned premiums. In other words, of $11,219,000, the amount of net premiums, $7,279,000 was reinsured, leaving net premiums of $3,939,000.

Mr. CHUBB. Yes; about $4,000,000.

Mr. HEUBNER. Your questionnaire stated, under question 14, that in your reinsurance with other companies during 1918, as far as foreign alien companies were concerned, 77.47 per cent was reinsured with foreign admitted companies and 14.5 per cent with unadmitted companies, or there was placed with foreign admitted and unadmitted companies a total of 92 per cent of your total reinsurance. That you were good enough to explain further, and that is true of all the questionnaires you sent in, and it is also for the British companies, that the large percentage of the foreign admitted companies is due to the exchange of business between this company, the Federal, and the foreign companies having Chubb & Son as their managers.

Mr. CHUBB. Surely.

Mr. HUEBNER. Nothing invidious was thought to be suggested.

Mr. CHUBB. Then do not use the word "control."

Mr. HUEBNER. We used the term, "controlled and closely allied," and I thought I made it clear yesterday in reply to Mr. ————— that there is a distinction between the term "controlled" and the term "allied," or, as I said yesterday, as I recall, "sympathetically allied." I did not mean to say that the Federal was controlled like the Queen or like the American & Foreign, and some other companies where the questionnaire shows that practically all the stock is held abroad.

Mr. CHUBB. It is not controlled, as I expressed it, in any way, sympathetically or in any other way.

Mr. EDMONDS. I notice you did not swear to your questionnaires. Everybody else did.

Mr. CHUBB. I will be very glad to do that.

The CHAIRMAN. I presume it was an oversight.

Mr. CHUBB. They spoke to me about it, but inasmuch as there was no form I said, "I will write a letter to go with it." I shall be very glad to swear to it.

Mr. HUEBNER. Mr. Chairman, may I also add that as to the American companies—that is, with American charters of any real importance—there are not many really important marine companies with American charters. There is none of the companies, to my knowledge, as far as we have questionnaires, where the proportion of the total reinsured with foreign companies, admitted and unadmitted, is so large as the 92 per cent of the Federal.

Mr. CHUBB. No; that was exchange of business.

Mr. HUEBNER. That was true as to the line of business to which the term "allied" was used and I never had in mind legally controlled.

Mr. CHUBB. I believe, as the result of this, Mr. Chairman, the committee has obtained a very thorough picture of the matter. I do not care what they call it, so far as they understand the facts.

Mr. EDMONDS. Another thing that struck me as very peculiar was that in going over these questionnaires we found that virtually one-third of the premiums were written here and two-thirds went abroad.

Mr. CHUBB. Well, I am surprised at that myself.

Mr. EDMONDS. And the Federal Co. followed so closely to that one-third and two-thirds that sometimes it was a question in our minds as to whether you or the British companies or somebody had not gotten together and made an arrangement by which you would divide the business up.

Mr. CHUBB. All my arrangements have been under a United States company and they have been for services at a high rate of compensation.

Mr. EDMONDS. I am going to be very frank with you. There is another question that came up in our minds in looking over the cotton and burlap pool, and that is the fact that Chubb & Son, Appleton & Fowler seemed to have a majority interest in each one of those pools.

Mr. CHUBB. Yes.

Mr. EDMONDS. When we came to look it up we found Chubb & Son, the Federal Co., with four foreign managerships, we find Appleton, the United States Lloyd's virtually in the same position as Chubb & Son; we find Fowler, the Columbia, virtually owned by foreign interests; we find Simpson, the American & Foreign Co. virtually owned by foreign interests. It seemed that the old line, or the company that had no affiliations in the London market, did not in any way have a control in these pools or this arrangement. If it was a question of voting in this arrangement, of course, we could not tell that. That has developed since we went along, but if it was an absolutely control of the burlap and cotton business the American companies simply got the tail end of it.

Mr. CHUBB. As a matter of fact, the control is not exercised in that way at all, Mr. Chairman, as I think perhaps you know.

Mr. EDMONDS. That is what appears from the testimony, but you can take our end and look at the statements as we had it, and you can see that we said to ourselves: "What is happening here?"

Mr. CHUBB. My only anxiety is to try to make my position, as I see it, absolutely clear to you. I appreciate that the committee, from the start to the finish, in their questionnaires have been fair-minded. There is nothing tricky in the questionnaire; there is nothing there we can object to in any way, but naturally when we heard that Congress was going to investigate us we had been used to investigations or talk of them, and we were anxious to know what was going on.

Mr. EDMONDS. This committee is working on reconstruction problems, and the whole committee in every line has been very busy for six months now, trying to frame up some kind of a reconstruction program that is of advantage to American merchant marine, and you gentlemen recognize that one of the very important things in shipping is insurance.

Mr. CHUBB. Yes, it is.

Mr. EDMONDS. And the insurance question was given to us to investigate with the idea of producing reconstructive legislation, because a business that has had an absolutely free hand may have abuses or it may have ways of building it up.

Mr. CHUBB. Unquestionably.

Mr. EDMONDS. We gathered these statistics together from different sources and we had many sources in getting them, and I think you insurance men stick together pretty well. It is pretty hard to get much out of you.

Mr. CHUBB. I do not know. You have gotten everything I have got to give. I can give you that.

Mr. EDMONDS. We had six weeks of hard work trying to root around a little bit and find out something.

Mr. CHUBB. I quite appreciate, however, Mr. Edmonds, that every one of those questions required a great deal of work in the office.

Mr. EDMONDS. They did, and we have no desire to send them out to you again.

Mr. CHUBB. I hope not.

Mr. HUEBNER. I might say that we have just a few not yet sent in because they are getting the material together.

Mr. CHUBB. It means discontinuing certain departments to get this information. You know that. The way we keep our classifications, it has got to be all dug out.

Mr. EDMONDS. Then we went along a little further, after making inquiry around in several ways we found there were four very large brokers that seemed to have a very ample line of both English and foreign and American brokerage and seemed to handle the business exactly as they pleased, and we made a note of those, and I realize that the broker is, in the present condition of the business, in a very advantageous position.

Mr. CHUBB. I think he always has been, Mr. Edmonds.

Mr. EDMONDS. Yes; and yet at the same time my business was going to the brokers.

Mr. CHUBB. When I started in business, my brother, who was 17 years older than I, wanted me to go into the marine brokerage because it is a larger and better field.

Mr. EDMONDS. I can see the advantage of the brokers' position, and we felt that possibly something might be done along that line to

regulate them, but, of course, with an international business it is going to be a very hard proposition, because you have a competition which you can not regulate when you count these foreign associations.

Mr. CHUBB. That is absolutely so. It is different from any other class of business.

Mr. CHINDBLOM. Another branch of this investigation which has been conducted by the main committee is with reference to legislation designed to give attractiveness as an investment feature to mortgages on ships. Have you any views on the subject that you would care to express while you are here?

Mr. CHUBB. I have not got them very well formulated to do that. I know about the bill. One of the New York bankers who was consulted sent it around to me.

Mr. CHINDBLOM. Would that legislation, if any were passed, or any action taken of this character, affect the insurance situation?

Mr. CHUBB. It is quite possible it might.

Mr. CHINDBLOM. Are you prepared to say anything about that?

Mr. CHUBB. No; I do not think I am sufficiently conversant with it to express any opinion at the present time.

Mr. EDMONDS. Is it not true, Mr. Chubb, that the competition that exists between the insurance companies would bring it to a level anyhow?

Mr. CHUBB. The only question is, Mr. Edmonds, that if, owing to the passage of the Morgan bill, it should prove by experience that certain claims you had you could collect, we will say, from an American vessel that was not mortgaged, and that you could collect those claims that the shipper makes, because, as a matter of fact, there are a good many claims that an insurance company pays its shipper that are afterwards recoverable from the ship, and properly so—there has been a case recently decided on that very question by the Supreme Court, where a marine insurance company advanced money under a loan receipt, and took recourse against the ship for bad handling of cargo. That, I believe, is right in line with public policy. I do not think a ship should be exempted from her own carelessness, and I think that if it was found that on certain lines of shipping such a commodity as flour, for instance, that if it was damaged you could not recover on a mortgaged boat for the damage, and you could recover on an unmortgaged boat, then I believe you would get a higher rate on the mortgaged boat. On the other hand, I do not believe it is public policy to give a manager an excuse for mismanaging his boat. I had that very point up with the Shipping Board and I prepared something on that very thing.

We put up our private opinion that the Government should not insure them, for this reason, that two boats are in exactly the same class, in the same trade, and you come to me as an underwriter, and one I will insure at 3 per cent, and the other I will decline at 5. Why? Because one owner is a careful owner and will employ good men, and one is not. If the Government assumes them all and insures them all at one rate, there is no incentive to the careful man. The same thing is true with regard to the mortgaged boat. I do not think it is best to do that, but that is just one opinion. I do not think we should bring about such rates as would excuse a man of his own carelessness, which is an incentive to careless operation.

Mr. EDMONDS. I raised the question because you are here to-day, and I think there is not in the marine-insurance world any man whose opinion is more valuable and desirable on every phase of the subject.

Mr. CHUBB. Thank you.

Mr. EDMONDS. If we should find that on that mortgage phase of the question we should want to hear from you further, perhaps we could find some way of doing that at some other time.

Mr. CHUBB. I would be very glad, of course, to come down on any subject that any of you gentlemen want to see me on at any time.

Mr. EDMONDS. Let me tell you something. We have had three bills introduced on this mortgage problem, and every one of them contains a provision which allows a stated sum or a percentage to be named ahead of the mortgage.

Mr. CHUBB. Yes; I thought there was some provision of that kind, but I was not familiar with it.

Mr. EDMONDS. That would allow a man to make a mortgage on a ship, we will say, worth $750,000, if he wanted to borrow $250,000 on it, in order to handle the small matters that would come up, that would interfere with the operation of the ship, they would be allowed, if they could get anybody to take the mortgage, of course, stating they would want a reservation of $50,000 or $100,000 for liens ahead of the mortgage. Do you understand?

Mr. CHUBB. Yes; I understand.

Mr. EDMONDS. And then it would be followed next by the mortgage for $250,000, and then anything after that would have to follow.

Mr. CHUBB. I understand, but if you start captious criticism of these things, you never get through a big subject of this kind, and I do not want to express an opinion on anything of that kind unless I know what I am talking about.

Mr. EDMONDS. I do not think there will be any more hearings on insurance, so you can go ahead in your usual manner and we will consult with you later on any proposed legislation.

(Whereupon, the hearing was adjourned.)

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